July 1957

THE CANADIAN CHARTERED ACCOUNTANT

THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

Municipal Accounting

Financial Public Relations

Accounting for Intangibles in the U.S.

Accounting for Mine Exploration

Taxation from the Corporate Viewpoint

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PRACTITIONERS FORUM: Efficient Use of Audit Staff's Time

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THE CANADIAN

CHARTERED ACCOUNTANT

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IN THIS ISSUE

JOHN PEOPLES

Earlier this year the committee on accounting procedure of the American Institute of Certified Public Accountants issued a new bulletin on accounting for intangibles which represents the latest thinking on this subject in the United States. Canada has been giving considerable thought to the subject as evidenced by the interest shown in the topic at recent C.I.C.A. accounting conferences. In "Accounting for Intangibles in the U.S." John Peoples discusses the current and previous bulletins and summarizes the practice in the U.S. in respect to the accounting treatment of intangibles.

Mr. Peoples is a partner in the New York office of Peat, Marwick, Mitchell & Company. He is a C.P.A. of several American states and has been a member of the American Institute's Committee on Accounting Procedure for a number of years.

G. A. KILNER, F.C.A.

During the period of a company's preliminary mine development and exploration, a thorough understanding and appreciation of the undertaking should be made by the company accountant, according to George A. Kilner who has written "Accounting for Mine Prospecting and Exploration". Many of the specific problems connected with the various stages of a mining venture's early operations are discussed in the article, which will help both accountants and management to avoid pitfalls that may be extremely costly. In a second article, to be published next month, the author discusses the subject of accounting after the mine has reached the construction and production stages.

Mr. Kilner speaks with authority on this topic. A partner with P. S. Ross & Sons, Toronto, he has been associated with the firm since 1936 and has had many years experience with the mining industry. Mr. Kilner is a member of the Institute of Chartered Accountants of Ontario and in 1956 was elected a Fellow of the Institute.

W. S. ROTHWELL, F.C.A.

In "Taxation from the Corporate Viewpoint", W. S. Rothwell makes the point that next to wages and material purchases, the largest expense classification with which established companies have to deal is taxation. Another aspect of high corporate income taxes, the author claims, is the fact that it has contributed to the serious inflation which has taken place over the past 20 years. He points out that the most contentious aspect of income taxes, and the one responsible for most of the difficulties and disputes, is the determination of net income subject to tax.

Mr. Rothwell is vice-president and treasurer of Abitibi Pulp & Paper Company Limited with whom he has been associated for the past 11 years. He was formerly with Price, Waterhouse & Company in their Winnipeg and Toronto offices. He is a member of the Institutes of Chartered Accountants of Manitoba and Ontario and was elected a Fellow of the Ontario Institute in 1956. A past president of the Toronto Control, Controllers Institute of America, Mr. Rothwell is a member of a number of other accounting organizations. He also serves on the editorial sub-committee of *The Canadian Chartered Accountant*.

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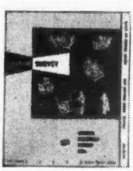

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Continued from page 4

C. J. DICK, F.C.A.

The same considerations which make accounting of such importance in private enterprise have equal force in their relation to public undertakings. The business of government is surely the most important in the world and no accountant in this country can be ignorant of the tremendous steps taken in the past few years in the improvement and standardization of municipal accounting. Those interested in up-to-date information on the subject will want to turn to C. J. Dick's article "Municipal Accounting". As the title indicates, the author has set forth many of the procedures peculiar to municipal accounting that are not met in the commercial field.

Mr. Dick is a partner in the firm of Gunn, Roberts & Company, Toronto. He was previously a partner of Dick, Bond, Hetherington & O'Loane until the two firms amalgamated last year. He has been working on municipal audits for the past 30 years and, as a member of the Institute of Chartered Accountants of Ontario, serves on the Committee on Accounts and Audits of municipal and certain other organizations. In 1956 he was elected a Fellow of the Institute.

E. C. WILBURN, C.A.

The development of a sound staff training program is becoming a matter of vital importance to both large and small public accounting firms. In "Recruiting Personnel for the Profession", Edward C. Wilburn puts forward a number of worthwhile suggestions as to how a firm, taking on new students, can establish a training program and provide organized instruction for its staff members. One point he makes is that while the first year of training is generally the most trying for the student, his impressions and attitude towards the profession at this time are important because they will certainly influence those of his friends who still have to graduate and may be considering chartered accountancy as a career.

Mr. Wilburn is a partner in the firm of Deloitte, Plender, Haskins & Sells, Toronto. He obtained his certificate in chartered accountancy in 1951 and is a member of the Institutes of Chartered Accountants of Ontario and Nova Scotia.

A. A. BEEVOR

"There is more to an annual report than columns of figures." In his article on the subject of "Financial Public Relations", Alfred A. Beevor discusses the annual report as the most effective medium for promoting financial public relations. He defines the other methods of communication whereby management can cultivate good will and generate confidence among shareholders and concludes that sound financial public relations can only be achieved if supported by a reputation for integrity.

Mr. Beevor is presently vice-president and treasurer of Dominion Stores Limited with whom he has been associated for the past 31 years. In this capacity he is in charge of all aspects of accounting and company finances.

EDITORIAL

Greater recognition for the profession's smaller practitioners who serve small and medium sized businesses is the theme of this month's editorial by C. K. MacGillivray, a partner in the Hamilton, Ontario firm of Chagnon and MacGillivray which he founded in 1933. He shows how the local

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practitioner is applying to his job the high standards of the profession and points out that as the problems and complexities of small business have continued to grow, so have the opportunities for the chartered accountant to offer many new services.

Mr. MacGillivray has been active in the affairs of the profession for many years and was elected a Fellow of the Institute of Chartered Accountants of Ontario in 1953. He is also treasurer of the Public Accountants Council for the Province of Ontario and a member of Council of the Chartered Institute of Secretaries (Ontario Branch). The author of articles to various journals, he is presently chairman of the Editorial Board of *The Canadian Chartered Accountant.*

NOTES AND COMMENTS

C.I.C.A. Annual Conference

Within the last few days members will have received a draft program, together with registration and hotel reservation forms, for the forthcoming 1957 annual conference of the Canadian Institute to be held at Saskatoon from August 19 to 21. Those planning to attend the conference are urged to return their forms promptly to the Institute of Chartered Accountants of Saskatchewan, Box 606, Saskatoon, Saskatchewan.

C.I.C.A. Committees and Chairmen

At their spring business meeting the C.I.C.A. Council appointed the following committee chairmen for the coming year: T. A. M. Hutchison (Accounting and Auditing Research), H. E. Crate (Taxation), Rosaire Courtois (Government Accounts), J. R. M. Wilson (1958 Annual Conference), C. K. MacGillivray (Magazine and Publications) and C. W. Winters (Public Relations).

Council also decided to set up a special committee to review the C.I.C.A. charter and by-laws in order to ascertain whether any amendments should be made because of the rapid growth of the Institute's membership. Chairman of this committee will be J. A. Wilson.

Committee Meetings

The Long-Range Educational Planning Committee met on May 29 and 30 in Montreal under the chairmanship of C. L. King.

On June 3 and 4 the Accounting and Auditing Research Committee met at Mont Gabriel, Quebec. At the meeting the committee undertook to revise Research Bulletin No. 1, "A Statement of Standards of Disclosure in Annual Financial Statements of Manufacturing and Mercantile Companies", and copies of the revision will be mailed to members before the end of the summer.

Names Requested

In a recent letter to members of the C.I.C.A., the chairman of the Editorial Board of *The Canadian Chartered Accountant* asked for names of potential subscribers to this journal. When a similar appeal was made last year, a high percentage of the names sent in subsequently became general subscribers to the journal. It is hoped that members will again support this effort and forward their list of names without delay.

In the News

James M. Dunwoody, D.S.O., D.C.M,. C.A. has been appointed to the Toronto Advisory Board of the Huron & Erie Mortgage Corporation and the Canada Trust Company.

George A. Cruickshank, C.A. has been appointed executive vice-president of the Montreal Stock Exchange and Canadian Stock Exchange.

Editorial

THE ROLE OF THE SMALLER PRACTITIONER

THERE MAY be a tendency in professional accounting circles to deal more frequently with subjects relating to the sphere of the larger business concern, because problems and developments in big business have more appeal, scope and freshness. It is fitting, therefore, to stop for a moment to review the efforts of the profession's smaller practitioners and their role in serving small and medium sized enterprises.

In our expanding economy, many small commercial and financial ventures are being created every week. In this new business field, the chartered accountant is providing a very necessary and helpful professional service and puts his knowledge to good use. He can determine the feasibility of a proposed venture, estimate reasonable approximations of operating costs under certain conditions, make intelligent guesses as to profits at different sales levels, advise on the best methods of financing and instal the most satisfactory records. He is particularly capable of pointing out pitfalls which an enthusiastic entrepreneur may overlook.

After a new business has become established, the chartered accountant may be engaged to perform his better known and more frequent functions of advising on accounting matters, auditing, drawing up and reporting on financial statements, preparing tax returns and advising and negotiating on tax matters. Less frequently he might be asked to make an investigation for the contemplated purchase of another concern, assist in winding up a business or perform other specified services.

A few decades ago those functions were about all that were expected from the public accountant and that he attempted to contribute. Nowadays, the competent small practitioner finds his time sought increasingly for consultations with his clients on many subjects, as owners and management begin to appreciate the value of his experience. The operation of even a small commercial establishment

has become so complex that the owner or owners must call in professionals and specialists if it is to be conducted to the best advantage. The tendency is to turn to the auditor as he already has some intimate knowledge of its affairs.

Often the owners themselves do not see their mistakes, inefficiencies or lost opportunities. This may be due to their inexperience, lack of judgment, or inability to keep in perspective the broad approach. Even a capable management may overlook some important phase of its company's affairs or be unaware of a recent development of which it may take advantage. The modern chartered accountant is alert to these possibilities and, while performing his normal duties, is always watchful for ideas which may provide helpful suggestions for his clients. Even if his concepts are not at first requested, an enterprising auditor will offer a suggestion to his client if convinced it has some merit. Usually if his early suggestions prove beneficial, he is consulted more frequently on general business problems and becomes of greater value to his client. Thus the small practitioner today is taking an increasingly important part in commercial and financial planning.

In promoting high standards of business ethics among small establishments, the chartered accountant also plays an important role. A young or inexperienced person assuming responsibilities of business ownership or management may attempt, on occasion, to evade tax unlawfully or gain a benefit in some improper way. The chartered accountant, due to his background of business training and experience, is in a position to know what is generally accepted as proper business conduct. With this knowledge, any forthright practitioner can point out convincingly to his client the error of his ways and persuade him to steer a course into acceptable channels. It can be taken for granted that our members are actually giving such advice and leadership in their spheres of influence and have done much to raise the level of business ethics, particularly where smaller enterprises are concerned.

The chartered accountants whose clients comprise small and medium sized businesses perform a highly important function in the business world. They shape plans and policies more than is generally realized and assist greatly in improving the standard of business ethics. Their contribution should be recognized and fully appreciated.

Accounting for Intangibles in the United States

JOHN PEOPLES

INTANGIBLES acquired by purchase, either by cash or through the issuance of securities, can be divided into two broad classes:

(1) Those having a term of existence limited by law or by their nature (such as patents, copyrights, leases and goodwill as to which there is evidence of limited duration);

(2) Those having no such limited term of existence and as to which there is, at the time of acquisition, no indication of limited life (such as goodwill generally, trade names, secret processes, subscription lists, etc.).[1]

Basket Purchase

Before considering the accounting treatment to be accorded to these two classes, perhaps it is stating the obvious to say that initially they should be carried at cost. This is not difficult to determine in the case of a cash purchase of a specific asset. In a basket purchase for cash, whether it is a group of assets or a company, the problem is somewhat greater, and where a subsidiary is acquired through an exchange of stock the problems are greater still. The American Institute bulletins state that cost may be considered as being either the fair value of the consideration given or the fair value of the property or right acquired, whichever is the more clearly evident.

Where the stock of the acquiring company has no ready market, it is difficult to determine the consideration given, and in the absence of an appraisal perhaps the book value of the net assets acquired is a reasonable measure of what has been received. On the other hand, where the acquiring company is listed, the market value of the securities issued is a better measure of what has been acquired. Negotiations may be rather protracted and during this time the market value of the stock may have fluctuated considerably. For this reason an average price may be a better basis than the price of any particular day. A recent listing application to the New York Stock Exchange described the exchange basis as follows:

> "The basis for the exchange of shares of the Company's common stock for shares of X company stock

[1] This classification and most of the material in the article have been taken from "Restatement and Revision of Accounting Research Bulletins", chaps. 5 and 7(c), of the Committee on Accounting Procedure of the American Institute.

has been determined by giving effect to the market value of the shares of the Company's common stock during the period of negotiations for the exchange, the net worth per share of the outstanding shares of X company stock, an independent appraised value of the fixed assets of X company and other relevant factors."

Having determined the aggregate cost of the net assets acquired, it is not sufficient in consolidation to classify as goodwill the excess of cost (it usually is an excess today) over the net book value of the assets acquired. The excess may represent pure goodwill, fixed assets worth much more than their book value because of rising replacement costs or excessive depreciation provisions, undervaluation of inventories because of a *Lifo* basis or other reason, or a combination of circumstances. It is the responsibility of the directors to determine the allocation, and the auditors must consider if the allocation is reasonable.

Amortization and Write-offs

It has been necessary to make passing reference to more than intangibles in considering what is cost and the necessity of allocating cost to its component parts. Having determined cost, there is generally not much problem in computing amortization of intangibles with a limited life. Normally the amortization might be based initially on the legal life of the asset, e.g. 17 years in the U.S. in the case of a patent, but if good judgment indicated at any time a shorter period of benefit then amortization would be correspondingly modified.

Under U.S. accounting rules in the case of intangibles with no limited life, there is no necessity to amortize if it appears that the intangible will continue to have its initial value during the life of the enterprise. It is, however, permissible to amortize such intangibles over a reasonably long period despite the fact that:

(a) there appears to be no current need for amortization, and

(b) expenditures are being made to maintain their value.

When it becomes reasonably evident that the term of existence will be limited, amortization should be based on the estimated remaining life. However, if this becomes evident rather unexpectedly and the charge for the remaining years would be sufficient to distort income, then a write-down may be made against surplus with respect to the prior years which bore no or insufficient amortization.

In the original bulletin issued by the American Institute in 1944, the committee took the rather mild position "that in the past it has been accepted practice to eliminate intangibles (such as goodwill) by writing them off against any existing surplus, capital or earned, even though the value of the asset is unimpaired. Since the practice has been long established and widely approved, the committee does not feel warranted in recommending, at this time, adoption of a rule prohibiting such disposition. The committee believes, however, that such disposition should be discouraged, especially if proposed to be effected by charges to capital surplus."

Like most rules that "discourage", no one was prevented from writing off intangibles against surplus though it was rare to find the charge against capital surplus. In the restatement and revision of the bulletins in 1953, the committee took the forthright position that:

"Lump sum write-offs of intangibles should not be made to earned surplus immediately after acquisition, nor should intangibles be charged against capital surplus. If not amortized systematically, intangibles should be carried at cost until an event has taken place which indicates a loss or a limitation on the useful life of the intangible."

This change was clearly labelled as a change of substance when the revision was published. However, it did not attract much attention at the time and it was not until a combination of rising stock market prices, coupled with a trend to expand through acquisitions, that company heads began to realize that they could no longer write off part of the purchase price except through amortization and the consequent penalty of reduced earnings. An effort was made to have the committee change its position to permit writing off goodwill to earned surplus and while one or two members might have been agreeable, the majority clearly felt that it was not logical to acquire a business and then immediately write off part of the purchase price.

Pooling of Interests

In considering the matter, the committee came to the conclusion that perhaps some of the so-called acquisitions would, under a more liberal interpretation of the then existing bulletin, be considered as poolings of interest with a consequent avoidance of the problem of goodwill arising on consolidation. As a pooling of interests may be a new concept to some Canadian readers, a word of explanation may be appropriate.

In 1950 the American Institute issued a bulletin in which it was recognized that whenever two or more corporations are brought together or combined for the purpose of carrying on in a single corporation the previously conducted business, the accounting to give effect to the combination will vary depending upon whether there is a continuance of the former ownership or a new ownership.

If the combination continued the former ownership and other requirements were satisfied, it was deemed a pooling of interests. If the former ownership did not continue, the combination was considered as a purchase and goodwill could arise when the shares of the surviving company, issued to the stockholders of the acquired company and valued at fair value, exceeded the net assets acquired. In accounting for a pooling of interests the two balance sheets were combined and to the extent that the capital of the new enterprise exceeded the capital of the component companies, the combined capital surplus was charged with the excess and if it was not sufficient, the balance was charged against earned surplus. Where the capital was less than that of the constituents, capital surplus was credited. Apart from any adjustment arising from capital stock, the earned surplus of the combined companies was, in general, carried forward as earned surplus of the surviving corporation.

In addition to the prime requirement of continuity of ownership, other factors taken into consideration in determining whether a purchase or a pooling of interests was involved were the relative sizes of the constituent companies and the continuity of both managements. Other

things being equal, the presumption that a pooling was involved was believed to be strengthened if the activities of the businesses to be combined were either similar or complementary.

In considering relative size, some accountants felt that it was not a pooling if the companies were not virtually equal in size. Over the years this factor has been modified and the pooling treatment has been agreed to by the S.E.C. where one of the companies (listed on an exchange) contributed as little as 5% of the combined assets.

The requirement as to similar or complementary interests did not seem to have much practical significance when many companies were merging to achieve diversification.

Due to some ambiguity in the language of the original bulletin, too much stress was laid on the survival of only one company.

After considerable deliberation a new bulletin was issued in January of this year which no longer attaches significance to similar or complementary businesses. The bulletin goes on to state that "The continuance in existence of one or more of the constituent corporations in a subsidiary relationship to another of the constituents or to a new corporation does not prevent the combination from being a pooling of interests if no significant minority interest remains outstanding, and if there are important tax, legal or economic reasons for maintaining the subsidiary relationship. Relative size has not been considered determinative except where one of the constituent corporations is clearly dominant (for example, where the stockholders of one of the constituent corporations obtain 90% to 95% or more of the voting interest in the combined enterprise)."

Under this liberalized bulletin, no doubt many business combinations which formerly would have been considered as acquisitions will now comply with the requirements for a pooling of interests and the problem of goodwill will not arise.

Summary

Perhaps U.S. practice regarding the accounting treatment of intangibles may be summarized as follows:

1. If the consideration is other than cash, determine the purchase price.
2. In a basket purchase allocate the purchase price to the various assets acquired.
3. In a transaction involving an exchange of stock, determine if the transaction is an acquisition or a pooling of interests.
4. Intangibles with a limited term of existence should be amortized over their expected lives.
5. Intangibles with no limited term of existence
   (a) should not be written off to surplus immediately;
   (b) need not be amortized, but may be amortized by charges to income over a reasonably long period, despite the absence of any current need for amortization;
   (c) if it is evident that they have become worthless, the amount at which they are carried on the books should be written off through the income statement. If the amount is so large that its effect on income may give rise to misleading inferences, it may be charged to earned surplus.

Municipal Accounting

C. J. DICK

MUNICIPAL ACCOUNTING differs from commercial accounting in that it is not the function of a municipality to make a profit but rather to render the necessary services to enable it to operate and to spread the cost of these services in an equitable manner over the taxpayers of the municipality. Current costs are expenses of the current year but the cost of capital assets is usually charged to the taxpayers over a period of years. The council at the beginning of each year will decide what services are necessary and prepare a budget to provide for all expenditures. This will include expenditures of other boards, commissions, etc. required to be provided for by the municipality. Offsetting these expenditures in part are the grants from various governmental bodies, payments from other municipalities, boards and commissions, and the sundry revenues of the municipality. The excess of expenditures over revenues has to be met by taxation.

Revenue and Capital Funds

It is essential that the accounting records of a municipality be maintained in two distinct parts, revenue funds (often referred to as current funds) and capital funds. These funds should be handled and recorded separately. In larger municipalities they are frequently handled through one bank account and complete records kept to properly classify all items.

Advances from revenue funds to capital funds or vice versa should be duly recorded and an account or accounts maintained in the capital section of the general ledger called "Due to or by Revenue Account" or a similar title, and a corresponding account kept in the revenue section.

Books of Account

In small municipalities these books are usually handwritten. Some or all may be written by accounting machines or by the use of punch-card equipment. An office with a considerable amount of mechanized accounting equipment may combine several books in one operation and may divide others into several divisions. In one form or another the following books of account generally are required:

- Cash receipts books for taxes
- Treasurer's cash receipts books
- Cheque disbursements journal
- Payroll records

Assessment roll (prepared by the assessor)
Tax roll (the assessment roll and tax roll are frequently combined in one book)
Local improvement assessment rolls (prepared by the engineer)
Tax ledgers (current and arrears)
Tax sale register and ledger
Debenture register
Accounts receivable sundry ledger
General journal
Investment ledger for various funds
Investment earnings register
General ledger

The provincial governments have been endeavouring to standardize municipal accounting and the presentation of municipal statements. They have cooperated with the Dominion Bureau of Statistics to publish the "Manual of Instructions", which contains specimen forms of financial statements required. Copies of this manual are available at nominal charge from the Department of Municipal Affairs of the various provinces or from the Queen's Printer at Ottawa. Many of these forms have been revised by the provincial departments and several provinces supply blank printed forms to be used. This manual is presently under revision.

Capital Fund

The main function of the capital fund records and statements is to show clearly the long term debenture liability of the municipality, the source of outside funds to assist in payment of these liabilities and details connected with capital acquisitions.

All disbursements made on capital account are charged to their respective capital construction accounts in the general ledger. When the construction is complete or progress billings are received, any holdback is charged to the construction account and credited to a liability account.

When local improvements are commuted, i.e. paid for in full by a property owner, the amount received is entered in the capital cash receipt book and credited to a separate local improvement commutation account. The total of these commutations at the completion of the work is transferred to the credit of the respective construction account. The balance remaining in the account represents the net cost of the capital construction. By decision of council a portion of the municipality's share of this cost may be included in its budget and paid from current funds and the balance of the cost debentured over a period of years.

Where the construction is partly or completely for a local improvement, the local improvement assessment rolls are prepared by the engineers and the proper proceedings taken to notify the property owners and to hold a court of revision, if necessary, before the debentures are issued. The costs in connection with the preparation and sale of debentures are charged as a cost of construction. Where one debenture is being issued for several items, the costs are distributed proportionately to each construction account. Debentures are seldom sold at par but usually at a discount or a premium, and the amount of such discount or premium is charged or credited to the various construction accounts in the same manner as other expenses of the issue.

Where all or a portion of a debenture issue is for a board or commission, "Debenture account" is charged with the par value of that debenture.

An account for that board or commission is credited and, after adjustments for various credits and charges, the balance becomes payable to the board or commission.

Capital Section of General Ledger

This section of the ledger, as previously stated, is self-balancing and contains accounts for the following:

Assets

- Capital bank account
- Due from current fund (usually balance of proceeds from sale of debentures)
- Owing from other municipalities on debenture account
- Owing from school board, public utility or other local board or commission for debentures issued on their behalf
- Cost of capital construction in process
- Various accounts for cost of permanent assets including municipal buildings, parks, pavements, sidewalks, roads, sewers, etc.

Liabilities

- Debenture liability for own debentures issued
- Liability to other municipalities on debenture account (For joint construction work where debentures for full cost issued by other municipality; debenture liability assumed when a portion of an adjoining municipality is annexed; etc.)
- Liability to current funds for moneys temporarily advanced for capital purposes
- Capital bank loans
- Accounts payable on capital construction
- Holdbacks
- Investment in capital assets

Current Fund

Preparation of Tax Rolls

The assessment rolls, when prepared by the assessor and after the proper revisions by the court of revision, etc., will show the total assessment of all property taxable for public school and separate school purposes, together with the related business assessments. The total assessments as shown on the tax roll must agree with the corresponding amounts on the assessment roll. Tax rates that are common to all taxpayers are then combined to show one total rate each for public school and separate school supporters, and the tax bill will show the detail of how the total rates are arrived at. These rates applied to the assessment, together with area or special rates applicable to only a portion or portions of the municipality, and the local improvements amounts, represent the total taxes for each assessment. Where a school authority covers the complete municipality, the educational charges are included in one rate as above. Where there are different educational rates on various parts of the municipality, these educational rates are added as special rates on the area concerned. Special charges such as hydro arrears then are added to the tax roll. The total of the tax roll is readily proved by extending various assessment totals at the tax rate or rates and adding the total of the local improvement and special charges, etc.

In addition to the taxes on the tax roll for the year, further tax levies, usually called "supplementary levies", should be made on all assessments added since the preparation of the current assessment roll. These assessments are usually on buildings completed during the year and the taxes are calculated at the tax rate for the year and are apportioned for the number of months of occupancy. The procedure for levying and apportion-

ing these additional taxes varies in the different provinces.

The total tax roll and the supplementary levies are charged to taxes receivable and the various tax levies are credited to their proper accounts.

Exempt properties, including those owned by various governments, would not be taxed on the tax roll, nor included in the taxes receivable. Some municipalities receive amounts in lieu of taxes with respect to such properties. Such receipts would be credited as revenue, and portions paid to other boards or commissions as may be required by the provincial Acts and regulations.

Pre-levies of Debenture Amounts

Local improvement charges are sometimes levied on the tax roll in advance of the year that repayment is required. This amount must not be included in the revenue for that year, but should be shown and remain as a current liability.

These amounts would be included in the revenues of the last year of the debenture as the corresponding levy would not be made that year.

Numbering of properties on tax roll

For all mechanized systems of tax accounting each property must be given a permanent tax roll number which remains with the property from year to year, and such procedure is also advisable where handwritten tax records are maintained. When allocating the numbers to the various properties care must be taken, due to subdividing, etc., especially in undeveloped areas, to provide for reasonable expansion.

Local Improvements on Tax Roll

The engineer prepares the local improvement assessment roll showing all properties specially benefiting from capital construction such as sewers, sidewalks, pavements, etc., and this assessment roll shows the number of years that the charge is to be made and the amount of the annual charge against each such property. These charges are entered on the tax rolls for the required number of years. The total of all local improvement charges on each year's tax roll must be agreed with the totals from the local improvement assessment rolls and the total of each year's charges reconciled with that of the preceding year.

It is advisable to maintain a separate card or other record for each property showing the detail of each local improvement charge, i.e. annual amount, first and last years to be charged, etc.

Taxes Receivable Records and Collections

These records will vary considerably depending on whether the records are handwritten or machine-written. Some municipalities use the current tax roll to record all payments made during the current year and, at the end of the year, the unpaid taxes are transferred to tax arrears ledger cards or sheets. Many municipalities post all current tax payments on ledger cards which is often considered preferable.

Where prepayments are accepted on taxes, the full tax credit is entered as a credit on the ledger card as soon as received and, until the current taxes are levied, these prepayments appear as credit balances.

All tax ledgers, including both current and arrears, must be balanced at the end of each year and it is prefer-

able to balance them periodically during the year.

The majority of municipalities use some form of cash register or similar machine to record tax payments. Any system used must provide that the taxpayer be given a receipt and that a record, either a stub from the tax bill or a duplicate receipt, would remain with the cashier. All receipt forms used should be serially numbered when printed, and all tax-receipting machines should have a serial consecutive number or some other built-in factor in the machine to assure that all amounts received and recorded in the machine are duly reported. It is important that the tax receipts be balanced with the cash on hand at least once every day.

When taxes are paid before discount date, the discount is entered separately on the receipt and in the cash book and the amount of cash actually received entered in the "Cash received" column. Where taxes are paid late and a penalty is added, a similar procedure is followed. After the time specified by regulations in each year, the amount of penalty to the end of the year is added to each tax card.

Treasurer's Cash Receipts Book

The totals of the cash receipts books for taxes are entered in the treasurer's cash receipts book daily or in total at the end of each month.

Numbered cash receipts forms in duplicate should be used for all cash items received (with the exception of tax receipts where the tax stub is used) and the receipt number should be shown in the cash receipts book. It may be advisable to use several series of numbers or different types of receipt forms for various items of revenue. All moneys received must be deposited in the bank on the next business day.

Accounts Receivable Records

Accounts receivable records must be maintained for all sundry items to be received, such as charges made by the engineering department, rents receivable, etc. Records should be forwarded to the accounting office of all work performed where payment is to be received. This may include work for other boards or commissions, or sewer connections, tree removal for property owners, etc. Any amounts paid for relief, hospitalization, etc. recoverable from individuals or from other municipalities should be entered in the accounts receivable records.

Revenue Disbursements

The accounting procedures for handling purchase requisitions, invoices payable and for issuing and recording cheques do not raise any special problems in municipal accounting. Standard accounting practice should be followed, the necessary approvals for all payments obtained, and a constant check maintained with the budget appropriations. With respect to payrolls, a mechanical or semi-mechanical system should be used to make all the payroll records at one writing.

Revenue Section of General Ledger

This section of the ledger will contain accounts for all revenue and expenditure items arranged in the order required for the preparation of the annual financial statement. It will also contain accounts for all current assets and liabilities such as:

Assets

Cash, banks and investments
Accounts receivable
Taxes receivable, tax lands held for sale
Inventories
Owing by (or to) the capital account
Deferred charges

Liabilities

Liabilities to banks and outside suppliers
Debentures and coupons due
Reserve accounts
Deferred income or revenue
Current surplus (or deficit)
Allowances for losses on assets

All ledger accounts for both capital and current items should be in numerical rather than in alphabetical order. Each section of the ledger should be given a general number leaving 100 numbers for a possible 100 accounts, if required, in each section.

Debenture Register

When a debenture is sold, complete details are entered in the debenture register. The register will show the total amount of the debenture issue, rate of interest, sale price, dates of issue and sale, premium received or discount allowed, property acquired or work paid for with the proceeds, the annual payment, and the total of the property owners' portion, where applicable. A debenture assumed ledger or register should be maintained where the volume is sufficient.

Debenture Principal and Interest

At the beginning of each year a complete list of all debentures and coupons due during the year should be prepared. This information, and the analysis of the amounts, will show the total amount to be provided for in the budget, the amounts to be collected from other boards or commissions or from other municipalities, etc. The totals of the amounts maturing each month are required for financing purposes.

Debentures and coupons are usually payable at the bank. The simplest method of handling these payments is the transfer to a separate debenture bank account of the exact amount due on each due date, and the balance on deposit then is always equal to the debentures and coupons due and not presented for payment. Where larger amounts are involved, the treasurer should keep in touch with the bank and transfer funds daily, or as may be required.

The amounts paid or transferred to a separate bank account in a month are entered in the cheque disbursement journal as one amount for principal paid and one for interest paid, or by a series of entries showing the totals of each by-law. These are charged to two accounts in the general ledger . . . "Debenture principal paid" and "Debenture interest paid".

Tax Sale Records

After the legal time limit, property in arrears of taxes can be sold or, in some areas, transferred to the municipality by registration. It is essential that all legal formalities be fully complied with.

Receipts from properties sold at a "Tax sale" are applied against the taxes, penalties and costs accumulated against the property. A property owner may redeem his property, usually within a year, by paying the complete charges, plus interest. An amount received in excess of the taxes, penalties and costs is returnable to the previous owner of the property.

Costs of properties purchased by

the municipality at a tax sale should be entered in an account in the general ledger – "Property acquired for taxes", with a subsidiary ledger for the details of these properties. In the case of properties transferred to the municipality by registration, the full amount of taxes, penalties and costs are transferred directly to these accounts.

Budget Figures

Budget figures may be entered in the general ledger accounts of revenues and expenditures in various manners, in order to have a comparison month by month of the actual amounts of the revenues and expenditures with the budgeted amounts. An alternative would be to use a separate commitment ledger or similar record. However, as some revenues and expenditures are very spasmodic with large items some months and small items other months, e.g. debenture payments, care must be exercised that the comparisons do not become misleading. Properly used and interpreted, budget figures in the ledger may be of great value.

Other Funds

Designated Funds

These funds are either set aside in separate bank accounts or the moneys invested, and must be used only for the specific purpose stated unless proper authority is obtained for any transfer.

An investment ledger should be maintained with a separate account for each investment, showing the full description of the investment (including all serial numbers), the par or face value, the cost, the interest rate and the due date. All interest as received is posted on each sheet in an inset or memorandum column.

A separate section in the general ledger is maintained for each fund, using the following accounts:

Fund bank account
Fund investment account (at cost)
Account showing amount to credit of the fund, including earnings
If required, an "Accounts Receivable" account showing moneys that should have been paid into the fund but have not been transferred.

Sinking Fund

The annual amount required for deposit in the sinking fund (principal only as the interest coupons are payable each year) will be shown on the budget and on the treasurer's forecast of required monthly disbursements. These funds are transferred on the required dates to the sinking fund bank account, or paid over to a provincial department or other trustee. Where a municipality handles its own sinking fund, arrangements should be made in advance for the investing of the funds which should be earning as much interest as possible consistent with the security of the investments.

The sinking fund schedule, prepared when the debentures are issued, will show the annual sinking fund payment and the estimated annual interest earnings required to provide the necessary funds to pay the debentures at maturity. The balance in the "Interest earnings" account, that is, the actual earnings over or under the estimate at the end of each year, is transferred to "Sinking fund deficit or surplus" account. A separate section of the general ledger is maintained similar to any other fund.

Investment Earnings Register

Where a municipality has considerable investments in sinking or other funds these should be recorded in a

register, with a separate section for each fund.

General Considerations

In general, the accounts of the various boards and commissions carrying on special work follow closely normal accounting principles applied in a well-run business organization.

The operations of municipal offices in Canada, when considered in terms of collecting and spending money, truly represent big business. To handle the large volume of detail the use of mechanical equipment in municipal offices has increased greatly in recent years. For the smaller offices there are available addressing machines, small accounting machines, cash registers and other relatively inexpensive pieces of equipment that will increase efficiency and reduce labour costs. In some of the larger municipal offices punch-card equipment is now in use. Mechanical equipment is being steadily improved, and municipal treasurers and senior accounting officials must be constantly alert to improvements in machines and techniques which will meet their requirements.

This article is one of a number to be published on municipal finances. As a public service, reprints of the entire series will be available later in a single volume at a nominal cost. Enquiries should be sent to:

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Taxation from the Corporate Viewpoint

W. S. ROTHWELL

THE IMPORTANCE of income taxes to a business corporation may best be illustrated by pointing out that the annual income tax bill is approximately equal to the company's net earnings. All the planning, work, effort and worry of an entire organization for a full year, from the president down to the sweeper, has as its objective the earning of sufficient annual income to pay dividends, finance plant replacements, meet debt obligations, improve working capital and provide for other needs. The sum total of all these business objectives is the "net earnings" objective and it also is the enforced income tax objective.

The very size of this staggering tax bill causes a person to pause and ponder from two points of view. On one side are the governments depending on business for the funds to finance essential services. If business fails in its objectives, if its leaders prove unresourceful or incompetent, our governments are faced with deficits and debts.

In the year 1956, 25% of federal revenue was derived from corporation income taxes. In the same year, corporation and individual income taxes combined to provide the federal government with more than 50% of its total revenue. Most certainly at the federal level, and directly or indirectly at the provincial level, there is great reliance on income taxes as a source of revenue. The impression cannot be avoided that for the good of the nation there should be a greater diversification in the sources of government revenue.

Demanding Subject

Next to wages and material purchases the largest expense classification that most established companies have to deal with is taxation. If we improve the productivity of labour or buy materials to better advantage the corporation retains only 50% of the benefit, but if our income tax bill is reduced the entire amount is retained by the corporation for the benefit of its shareholders. This alone should illustrate that income taxation must receive a great deal of attention in any profit-making enterprise. Even if the corporation has little hope or expectation of reducing the amount that might be payable, its executive officers have the responsibility of satisfying themselves beyond any rea-

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sonable doubt that the company is in fact paying no more than the minimum tax possible under existing laws. This desirable state of affairs can only come about if the subject gets the attention of qualified personnel in the right manner and at the proper time.

Role of Financial Officer

The individual primarily responsible for a corporation's income tax affairs is, in most instances, its senior financial officer. This individual does, or should, participate in the company's policy-making decisions in respect not only to continuing business matters but also to unusual nonrepetitive transactions of significant amount. Apart from the general financial contribution he may make in arriving at a decision, it is his responsibility to appraise the problem and the decision in the light of income tax consequences. To fulfil this obligation, he must be sufficiently well equipped with income tax knowledge to recognize and anticipate the broad tax consequences of any decision that is made. It would be unfair and perhaps unwise to expect the senior financial officer to be intimate with all details of income tax law because if he were to keep abreast of such details it would be at the sacrifice of other responsibilities. He cannot, however, avoid the primary obligation to recognize and anticipate when the occasion demands it.

Most of us know that in income tax matters, as in medicine, prevention is better than cure. A fair proportion of income tax disputes that are settled in the courts might have been avoided if the possibility of dispute had been recognized early enough. This is not to imply that all tax problems of consequence may be solved by early recognition, or that early recognition is reasonably possible in all instances.

If we concede that the senior financial officer is not to be a know-it-all on income taxes, it is apparent that he needs some help. In most larger companies technically qualified tax assistants are on the staff, and properly so, but in smaller companies this role is filled by the auditor or other outside consultant. It is not the course of wisdom for any company, large or small, to assume that it is self-sufficient in income tax knowledge and to disregard available advice and assistance.

A corporation deals with income taxes under four principal headings, namely, rate of taxation, instalment payments, determination of net taxable income and assessment of returns.

Rate of Taxation

There is little that a businessman can say about the rate of taxation except that the present levels of taxation in Canada are dangerously high for the good of our business economy on which so much depends.

Income taxes were first imposed on corporate income in Canada by the federal government as a wartime measure in 1917, just 40 years ago. The rate applied to corporate income at that time was 4%. Ten years later, in 1927, it had increased to 8.1%. By 1937 it was 15% and in 1947 had risen to 30% plus excess profits taxes imposed as a wartime measure. The federal rate currently in effect is 47%, more than ten times the 1917 rate and more than 50% higher than it was ten years ago apart from the excess profits tax levy.

This steady upward progression in

income tax rates leads a businessman to the conclusion that governments regard healthy business profits as something less than desirable and, for this or other reasons, an inexhaustible source of government revenue.

The plain truth is that our economy is a profit motive economy and no better type of economy has ever been developed. Profitable business institutions mean a plentitude of merchandise, competition for the consumers' dollar, favourable employment conditions, modernization of plant, large research appropriations and improved products. Lack of profit means a hold-the-line business economy with less employment, less research, no expansion and products of reduced quality. One positive effect of high taxation is to retard our development.

Another aspect of our high corporate income taxes that receives little publicity or discussion is the contribution that it must have made to the serious inflation that has taken place in the last several decades. It has been pointed out that business must earn a profit if it is to remain healthy and as a consequence business must have a profit objective that it seeks to attain. If costs are increased, whether by increased wages, increased taxes or for any other reason, the result is increased consumer prices; sometimes this reaction is delayed but it is nonetheless certain.

If it is correct to say that higher corporate income taxes result in higher consumer prices, and this is certainly so, then what contribution to inflation of the past two decades has been made by our high income tax system? It would take a well-qualified team of experts to find a precise answer but we can be sure that the very great increase in tax rates since 1937 has contributed materially to inflation in the past two decades.

Instalment Payments

The instalment payment method of paying corporate income taxes whereby taxes are paid in monthly instalments commencing at a point midway in a corporation's fiscal period seems to be a fairly equitable system of collection, considering the large amounts involved and the continuous need for funds by both the payor and the payee. Our system is superior to some used in other countries. It is questionable whether any country in the world has found a better compromise method of collection.

One serious criticism that can be made of our tax collection system is in respect to the severe interest penalty levied on business if it underestimates its net earnings and thereby underpays its income tax instalments which must commence six months prior to the close of its fiscal year. The objection is not to the interest penalty rate of 6% but to the fact that interest penalties are not allowed as a deduction in determining income subject to tax. This has the effect of increasing the penalty to an effective rate of 12%. Such a severe interest penalty suggests that it is a relatively easy task to forecast annual earnings with accuracy midway through the year, but this is not so by any manner of means. The doubling up of the interest penalty is a product of high income tax rates introduced since the 1930's and is a condition that should be corrected.

For companies subject to Province of Ontario income taxes the penalty is even more severe because under

Ontario legislation the combined interest penalty is 12% without recognition as an expense, resulting in an effective penalty interest rate of 24% per annum.

Net Taxable Income

The most contentious aspect of income taxes, the one responsible for most of the difficulties and disputes, is the determination of net income subject to tax. The naive or uninitiated person might believe that business income and taxable income are one and the same thing and could be rudely shocked to find how many reasons there can be for difference between the two. From a corporate viewpoint they are so numerous that an unrelenting, continuous effort should be made by taxation authorities to narrow the gap.

Business finds itself in the position of determining net income in two ways. First, it determines net income according to generally accepted accounting standards, having regard to all transactions during the period. Secondly, by adjustment or other means, the income subject to tax is determined. The common cause for differences between the two are outlays made for business purposes and considered necessary by management but not recognized as deductible items in computing income subject to tax. One recognizes that income tax legislation must be complicated and complex if the tax burden is to be distributed in a reasonably fair and just manner but even so, the gap between business income and taxable income can be narrowed with consequent improvement in tax administration on both sides.

The Canadian Tax Foundation made an excellent start on this problem a few years ago when it selected as a theme for its annual conference the subject "Business Income v. Taxable Income" and devoted the entire conference to a discussion of the differences. Some headway has been made since that conference but it is doubtful that all has been achieved that might have been. Other tax conferences and tax meetings held since that date and to be held in the future contribute to a solution to this area of difficulty because study and discussion of tax problems help to develop unanimity of opinion which sets the stage for improved legislation and regulations.

One step in the determination of net taxable income that is common to all corporate taxpayers is the calculation of depreciation or capital cost allowance. For a period of almost ten years, maximum allowances for income tax purposes have been determined on the declining balance method. While it would be wrong to say that this method has had the unqualified approval of all business corporations, it can be said that it has received a high degree of acceptance and approval, principally because in the early years it provides a modified but welcome element of accelerated depreciation.

One of the major problems faced by business is that of finding sufficient funds to finance capital asset replacements and expansion programs made necessary by a growing volume of production. It would be helpful to business if depreciation provisions were further accelerated or liberalized, thereby permitting a more prompt return of capital tied up in plant facilities. This would assist in solving the business dilemma of rising replacement costs.

An irritant in the declining balance method is the very slow and meagre allowances made in the later years under the system; indeed the declining balance method by its very nature prohibits full recovery of any capital expenditure no matter how long the term. This condition has been corrected elsewhere in the world by permitting the substitution of a straight line method at the point that the allowance under straight line rates exceeds the allowance under diminishing balance rates. One way of introducing this improvement into the Canadian taxation system would be to amend income tax regulations to permit a taxpayer the option for each acquisition year of selecting either the diminishing balance system accompanied by present rates or the straight line method at rates equal to 50% of rates presently authorized.

Assessment of Returns

The Income Tax Act requires the Minister to examine each return and assess the tax "with all due despatch", thus an elastic, uncertain period is allowed for initial assessment. Following assessment the Minister is allowed a further four years for reassessment or additional assessment. The period between date of filing and date of final determination of a corporation's income tax liability is thereby an indefinite period plus four years. These liberal assessment regulations impose on business an unnecessary period of uncertainty and doubt in respect of each year's most important financial transaction. It is suggested that the period available for assessment and reassessment could be limited to two years without impairment of assessment procedures and it is suggested also that the right to reassessment be limited to once only during the two-year period except when misrepresentation or fraud is present.

A lengthy, uncertain period for assessment and reassessment may have been reasonable during immediate post-war years or in the days of low income tax rates but it is inequitable to the corporate taxpayer under today's conditions. These comments are not intended as a criticism of officials and staff responsible for the administration of our complex income tax laws. On the contrary, it is recognized that considerable headway has been made since the difficult post-war period in the processing of taxpayers' returns. The very improvement that has been made, however, offers confirmation that the present permitted period for assessment and reassessment is no longer justified.

From a corporate viewpoint it is indeed unfortunate that all of our provincial governments were unable to resolve their revenue difficulties without entering the field of corporate income taxation again. Three of our provinces now impose corporation income taxes of one kind or another. The re-entry of the provinces into this taxation field exposes corporations to a multiplicity of returns, differences in definitions of income, questions as to location of income and a tax burden that falls unevenly on Canadian taxpayers according to location of plants and offices. Not the least of the problems is that of double taxation.

The situation is at its worst in the Province of Ontario whose corporate citizens are called upon to shoulder a tax burden of 2% higher than in any other Province in Canada. The burden on logging industries in Ontario

and British Columbia is even more severe because of an additional tax of 9% on logging income. This additional levy is allowed as an expense in computing income subject to federal tax so that the effective logging tax rate is approximately 4½%. It will be readily understood that the maximum income tax rate in British Columbia is approximately 51½% and in Ontario approximately 53½%.

Apart entirely from the reasons which prompt a provincial government to impose corporation income taxes beyond the amount deductible under federal legislation, there is no doubt that the imposition of such taxes by any province discriminates against its own corporate citizens. It also creates a business climate within its borders that could discourage the entry of new business enterprises and the expansion of established business, all to the long range detriment of the province and its citizens.

WHAT'S IN A NAME?

Replying to a toast to the Institute of Chartered Accountants of Scotland, Mr. G. I. Stewart, C.B.E., M.C., C.A., president of the Scottish Institute, recently remarked:

"During the last 24 months, in an official capacity, I have listened to a number of post-prandial speeches, one of the more dubious fruits of office, and, as tonight, have been pleasantly surprised by the laudatory remarks applied in praise of our profession. You will be glad to know that we have been described as guardians, arbiters, custodians, referees, umpires, standard bearers, yardsticks, barometers — surely a rich nomenclature for simple folk like you and me. One man, who might have been in difficulties with the income tax authorities, referred to us as 'alchemists', while another, whose auditor was obviously underpaid, went so far as to say ours was a vocation. In this connection, a past-president of our Institute told me he was once attending a Rotary Luncheon in New Orleans when it was intimated that the speaker at the next luncheon would be the Rev. John Smith. They were fortunate indeed, said the chairman, to have as their guest speaker the reverend gentleman who had not always been a Christian: prior to the war he had been in practice as a chartered accountant."

— From *The Accountants' Magazine,* April 1957.

Financial Public Relations

A. A. BEEVOR

Progressive management today recognizes the importance of sound financial public relations. It is possible, however, that some companies do not take full advantage of the many avenues which are available for this important function of management.

To be effective, a good program of financial public relations should be aimed at a broad target encompassing not only the stockholders of a company but also financial and investment institutions and organizations and the general public. Such a program must, of course, be endorsed and fully supported by top management. It should also be recognized that financial public relations are not necessarily confined to the financial officer of a company. An invaluable contribution can be made by the company's auditors, its public relations, advertising and other executives.

The Annual Report as a Medium

While there are many ways of promoting financial public relations, undoubtedly the most effective medium is the annual report. In recent years the annual report of a great many companies has undergone a remarkable improvement, but there are stilll some which forward to their shareholders only a brief report from the president and the required financial statements covering the year's operations.

During the past two or three decades the ownership of corporations has broadened to such an extent that today hundreds of thousands of Canadians own a part in one or more companies. The comparatively recent growth of investment clubs is indicative of still greater participation in the ownership of Canadian business. These "capitalists", comprising people in every walk of life, are not professional investors. They are housewives, farmers, labourers, clerks, teachers and doctors. The great majority of them are not financial analysts or accountants, and what is perfectly clear to the accountant may be as incomprehensible to the doctor as a doctor's prescription would be to the accountant. These people, who own the business, are entitled to an honest, factual presentation of the state of affairs of the company in a manner they can understand. The same financial facts presented in different ways can leave entirely different impressions on the non-professional reader. The impression made by

the annual report may be the difference between a satisfied and a dissatisfied shareholder.

To do an effective job, the annual report, as well as being comprehensible to the layman, should conform to sound accounting practice. A report that covers only results for the past year is of doubtful value. The balance sheet and the statement of income and expenditures should show comparative figures for the previous year, and a comparative balance sheet and statement of income and expenditures for at least the previous five years. This information is a minimum requirement for the stockholder, prospective investor or financial analyst who wishes to weigh the progress of the company.

More than Figures

There is more to an annual report than columns of figures. Since first impressions are important, the cover should be distinctive and well planned to command attention. Rather than presenting a rambling story, the report could be divided into orderly sections such as the president's report, financial data including charts, and what might be termed an "informative" section.

The president's report, should be a clear and concise report on the financial condition of the company, the financial results of the year's operations, with any necessary explanations, and the development of the business including forward planning.

In addition to the statements previously mentioned, the section on financial data should contain a statement of the source and application of funds, an important feature often omitted. A brief statement of financial facts such as sales, earnings, dividends, working capital, etc. for quick reference and appropriate, easily understood charts can be included here. The distribution of the dollar income may also be incorporated as a means of building good public relations.

Establishing a theme around which the annual report can be built is very helpful and may form the foundation of the informative section. In this part, something of the character and personality of the company and its organization can be conveyed to the reader in an interesting manner. Certain phases of operations can be illustrated with pictures of people to create a vital human interest story.

The shareholder, the employee, the prospective investor and the security analyst all want to know not only the progress the company has made to date but also what the management plans for the future. New developments in the company's particular field should be mentioned. Plans for expansion and new buildings, techniques and services are all of interest. The success of a company depends upon its people. Shareholders should be advised of programs for the development and training of employees to ensure an adequate supply of trained personnel. This information is particularly valuable in the case of a rapidly growing company which continually needs additional people for key positions. It can also be a means of attracting desirable new employees.

It is not necessary to wait until the end of the fiscal year to draft the annual report. The theme, design and much of the context can be prepared well in advance. When the financial statements and other data are available, the report is ready to go to

press. This will assist greatly in getting it into the hands of shareholders and others reasonably soon after the year end. Delay will certainly not promote good financial public relations. Preparation of the annual report is not a one-man job. Full advantage should be taken of the knowledge of the various department heads to build up the contents, and possibly a small committee and a coordinator should be appointed to ensure that all the required material is ready on schedule.

Distribution of the Report

Regardless of how excellent an annual report may be, if it goes no further than the shareholders of the company, it loses much of its possible use and benefit as a top ranking medium of financial public relations. It is well worth the comparatively small additional cost to print a few hundred or thousand extra copies over and above the quantity required for shareholders.

There is a broad natural field for the distribution of annual reports. It includes the financial editors of daily newspapers, financial publications, insurance companies, banks, trust companies, investment dealers and security analysts. In addition to the financial community, it may be advantageous to send copies to customers and suppliers, government officials and educationists. Many colleges and universities providing courses on business administration or commerce and finance are anxious to obtain a supply of annual reports for classroom use. This offers an excellent opportunity to assist in the education of young men and women who are potential customers, employees and stockholders.

Most businessmen today will probably agree that employees holding positions of responsibility should receive the company's annual report. Many companies also prepare a special report for distribution to all employees.

Relations with the Press

Regardless of how widely the annual report is distributed, it still reaches only a very small, though important, segment of the public. This is where the daily and financial newspapers fit into the picture through the medium of the paid advertisement and the news release. The issuance of the annual report creates an ideal opportunity for an institutional type of advertisement based on the report and aimed at the general public. Such an advertisement should not be a cold reproduction of the financial statements couched in language which may not be too clear to the average reader, and it should appear shortly after the release of the report while the information is still news. It will probably make the greatest impact if it is easily read and easily understood. It should not be too wordy, but should certainly indicate the nature of the company's business. Highlights from the financial statements, the president's report and the year's operations can be incorporated. It is also an excellent place to bring before the public the distribution of the sales dollar.

The financial editor of the daily and financial newspaper will usually publish items of public interest such as the annual report, interim reports, the annual meeting of shareholders, dividend declarations and other newsworthy subjects or events. This important phase of financial public relations should not be left to chance. The coverage by the press and the reader impact obtained will depend

to a great extent on the space available, the timing and the attention given to the preparation of the material.

Personal contact with financial editors can be beneficial. They have a responsibility to their readers and if they know something about the company and believe in the integrity of its management there is less chance that a news release will be ignored or given only minor coverage. Material for a press release should be carefully prepared and written without embellishment. The editor will not be taken in by fanciful phrases or attempts to get free advertising. If the material is presented to him in the form in which he can give it to his readers, there is a good probability that it will be accepted as a whole and given reasonable prominence. This is particularly true of the annual report release. A brief summary carefully written and accompanying the copy of the report will save the financial editor time with the result that some desirable feature may be pointed out which would otherwise have escaped mention. Press releases should be made while they are news. It is often advisable to forward the material a day or two in advance with the release date prominently displayed. This may assist in getting a better allocation of space than would have been possible with last minute delivery.

Relations with the Financial Community

The influence of the leaders in the financial community permeates the business world. They are in continual contact with the heads of every business and industry. Keeping these individuals aware of a company's progress is an integral part of financial public relations. One very good means of accomplishing this is through a security analyst, whose role in such a program should not be underestimated. He is primarily a research man whose opinion is sought by members of financial organizations and whose studies and surveys are frequently sent to the clients of investment dealers. Since it is part of his job to dig below the surface to bring to light any facts that may be obscure, he likes to get the "feel" of the management. The financial officer of a company will find it advantageous to become acquainted with leading security analysts. He can assist the analyst to prepare a survey of his company, invite him on a tour of the plant or office and arrange for him to meet some of the management group. When the analyst is preparing a report on a company, he often wants the financial officer to bring him up to date on current trends and to verify his information. The financial officer should welcome this opportunity to further the relationship and need not fear that he will be called upon to divulge confidential information. The security analyst should be on the mailing lists to receive annual and interim reports and other company releases.

Keeping the Shareholder in Touch

We now come to the shareholder, the owners of the company. Of paramount importance to the shareholder is the security of his or her investment in the company and the return it will produce. It is vital to good shareholder relations that the shareholders have confidence in both the ability and the integrity of the management. Keeping the shareholder well informed on the affairs and

progress of the business is a sure means of encouraging and maintaining this confidence. Many companies have now adopted the practice of issuing interim reports, either semi-annually or quarterly, thus undoubtedly bringing about a closer relationship between shareholders and management. The mailing or the dividend cheque provides an opportunity for enclosing a separate mailing piece at little cost. This can incorporate a change of address form, a notice of the dividend and a brief message from the president. When an interesting news story or editorial on the company appears in the press, it might be reproduced and mailed to shareholders, either separately or along with an interim report or the dividend cheque.

A warm welcome letter from the president to new shareholders can go a long way toward creating goodwill at the start. As it is quite possible that the new shareholder has not seen the latest company reports, it is a good idea to enclose with the letter a copy of the last annual report and the most recent interim report

Annual Meeting as a Means of Public Relations

The annual meeting provides one of the few opportunities for many shareholders to meet and talk to company management. In view of this a good attendance of officers and other management personnel is most desirable. If shareholders are to be encouraged to attend, consideration should be given in advance to their proper reception and comfort. If the meeting is held at the head office or plant of the company, interest can be created by inviting the shareholders to make a tour of the premises. The invitation should accompany the notice of meeting to enable the shareholder to allow for the time required. The tour must be well organized, with guides who are versed in the operation and capable of answering questions intelligently.

At the annual meeting, the president or presiding officer has an excellent opportunity to inform shareholders of the progress of the company since the close of the fiscal year, as well as of new developments and current trends. While the practice is not yet widespread, a number of companies print the president's address, or even a complete report of the meeting, and send it to the shareholders. This brings about a closer relationship with absentee shareholders and maintains their confidence and goodwill.

The many ways of developing sound financial public relations can only be successful if they are supported by a reputation for integrity. The integrity of a company and its management is the basic foundation of all good public relations.

Accounting for Mine Prospecting and Exploration

GEORGE A KILNER

FOR SOME obscure reason an aura of mystery seems to be centred around the financial statements of mining companies, whatever their stage of operation. This is by no means restricted to the so called "man in the street" but apparently equally besets many of the wizards of commerce and even some professional accountants.

From the accounting and auditing viewpoint, mining is not as complex as many would believe, but like other fields it does require a fundamental knowledge, understanding and appreciation of the business. It might be compared to a game of bridge in that it presents a continuing challenge to one's ingenuity and some phase of almost every case calls for special consideration and treatment.

The development stages of a mine may be summarized briefly. An individual or a group, interested and probably involved in the mining industry, engages a prospector to look over the ground in an area that for some reason or other holds an appeal. Armed with the tools of his trade, including an appropriate selection of the scientific instruments of the day, the prospector gathers a crew and sets out. Assuming that he is successful in locating a promising property, he then recommends its further exploration and the acquisition of its title or rights. This step requires the raising of the first important capital. The exploration of a property is designed to give the perimeter of an ore body, some indication as to its depth, the extent of the overburden, and, reasonably accurate estimates of the grade of ore, etc. from which initial calculations of the potential worth of the property can be made. With this information, the principals are in a position to compute the probable costs of extracting and converting the ore to a marketable finished product and measuring costs against revenue to determine whether or not it is possible to establish a profitable venture.

Preliminary Development

If an affirmative decision is reached, additional capital will be needed to finance the very important and critical phase of preliminary development. Although every precaution is taken, generally speaking, to assemble thorough and reliable information during the exploration of a property, it must be recognized that the project is still very much in the specula-

tive stage. All calculations to date are rough estimates at the best, many having been made without knowledge of actual conditions to be encountered. In order to eliminate as many unknown factors as possible and ultimately assemble accurate and dependable estimates of revenues and costs, a program of preliminary development must be undertaken. This will involve the clearing and stripping of the property, removal of overburden, construction of temporary roads and buildings and completion of extensive diamond drilling from the surface.

Preliminary development may be extended to include initial shaft sinking or the driving of an adit from which crosscuts can be made to the lode-bearing areas. From this latter point further diamond drilling may be performed. All diamond drill cores must be meticulously logged as to exact location and those in ore carefully assayed to pinpoint the exact location, extent and value of the ore bodies. The geologists will examine all drill cores to ascertain the structure of the rock and prepare reports on anticipated mining conditions.

In a nutshell the main purpose of preliminary development is to establish that sufficient reserves of ore of marketable quality do in fact exist and can be extracted and refined at a profit. Having negotiated this hurdle successfully, the management knows it has entered on relatively solid ground and can set about finding the money required to develop the mine to the production stage and to erect and equip the plant necessary for the treatment and refining of the ore. By this time, most financing problems have disappeared because the interest and imagination of the public will undoubtedly have been fanned to fever pitch by publicity. It should not be too difficult to locate underwriters or other providers of funds ready, willing and able to climb aboard the bandwagon and supply the necessary capital.

Of far greater importance is the work of planning, coordinating and carrying out the development and the construction programs to ensure steady and uninterrupted progress and more or less simultaneous conclusion on the target date set for the commencement of production. This is an intricate phase. Crucial factors are the weather, means of transportation, hiring and boarding of personnel, procurement of supplies, etc. Except for the fanfare usually attached to the official opening, the production stage of a mine is rather an anti-climax, particularly when contrasted with the flights and plunges of hopes during the period of exploration and preliminary development followed by the nightmares that are an integral part of the pre-operating development and construction. However, production is by no means all "cakes and ale". Problems continue but are somewhat changed in their nature.

From the beginning, the accountant and auditor will be called upon to play his part, and the road can be rocky or relatively smooth depending to a large degree on his attitude. If he tends to view matters with complacency and decides that nothing can be done effectively until after the fact, then in all probability he will run headlong into trouble. If, on the other hand, he approaches the problem constructively and plans along with the principals, then most of his

pitfalls can be avoided or at least minimized. The keynote of smooth and accurate accounting lies in a thorough understanding and appreciation of the immediate problems of the undertaking. It behooves the auditor to maintain contact with his client in order that mutual agreement is established and maintained.

Prospecting

In the early days of mining, prospecting was most frequently undertaken by an individual either in his own interest or under employment by others. Today the lone wolf operator is a rarity. Travel by airplane and the invention of a variety of sensitive instruments have combined to enlarge the scope of prospecting so that the popular approach nowadays is toward team work. It follows that more ground is covered more thoroughly in less time.

Many of the operating mines carry on a regular prospecting program in the normal course of their business and employ a prospecting team for this purpose. They may even retain personnel on the payroll who are equipped to devote time during the year to prospecting. Such an operation ordinarily presents no problem to the accountant and auditor since this is only one small phase of the overall business and the mine is invariably searching for additional claims for its future use. The cost of unsuccessful prospecting is merely an expense as such in the profit and loss statement. In fact, when an interesting property is acquired through prospecting the actual costs of the venture are seldom capitalized on the rather sound theory that the holding is very nebulous in value and will probably remain more or less idle for a considerable period before any further exploration or significant development is attempted.

More interesting to the accountant is a syndicate of an investment holding organization, a group of mining companies or of individuals formed to finance a prospecting program. Its object is invariably the location of promising properties which it might sell to an existing mining company or to a new company incorporated for the express purpose of exploring and developing the property acquired.

The raising of funds is simple since the number of parties involved is necessarily limited due to the extremely speculative nature of the undertaking. Each member of the syndicate merely contributes his share of funds according to the terms of the underlying agreement. The working capital is then deposited in the selected head office bank from which funds are drawn as needed to supply the imprest trust account at the bank nearest to the territory in which the prospecting team is working. The prospector will be authorized to draw on the trust bank account to meet the payroll of his crew and defray the operating costs.

If the auditor is fortunate enough to have been notified of his appointment at the birth of the syndicate or very shortly after, he should make his first appearance immediately to recommend that the prospector be instructed to submit payrolls and vouchers covering all expenditures together with bank statements currently (not less than once monthly) to head office for reimbursement. He should also ascertain that the prospector is properly advised concerning the withholding of all payroll deductions at source. Nothing is more frustrating than to be handed a wad

of assorted payrolls, suppliers' invoices, trust bank account statements, etc., together with a sequence of cancelled head office cheques covering a six or seven month period that occurred a half a year ago, with the comforting assurance that "you will have no trouble in matching these up and preparing a statement for a meeting tomorrow afternoon — with unqualified report, naturally". A word of warning is timely. He who wishes his road to be smooth must lay a sound foundation at the beginning. The present day prospector is, generally speaking, quite capable of producing records as desired, but he is no mind reader and in all probability his forte is not accounting.

The distribution of expenditures should be straightforward and limited to principal classifications such as wages, cookery provisions, travel expense, supplies, expendable equipment, staking, assaying of samples and capital equipment. If the team is moving about in more than one territory in a season, separate accounts should be maintained in respect of each property. Because of the relatively high cost of air freight, much equipment is abandoned on the spot at completion of the project. The capitalized equipment therefore should be restricted to those assets of lasting value that can be brought out of an area for future use or resale. All other items, including tents, canoes, axes, shovels and even outboard motors, which will be abandoned on the property, should be expensed.

Assuming that an attractive property has been located, the syndicate is now in a position to receive something for its efforts. The claims may be leased or probably sold outright to an incorporated company for exploration and development. It is customary to sell the claims for a combination of cash and capital stock in the purchasing company, turning over a percentage of the proceeds (popularly 7½%) to the prospector as a finder's fee.

Exploration

The first step up the ladder from prospecting to exploration rarely worries the accountant unduly since the undertaking remains in a relatively simple stage quite similar to that from which it just emerged. There are, however, a few new twists and terms.

Depending upon the nature of the mining venture the enterprise may have full ownership of the property, a long term title to claims, or the mining rights with privilege of access, or a lease or perhaps an interest in claims with authority by agreement to explore, develop and mine. It follows that where full ownership or clear title does not exist, the interest in the properties is invariably accompanied by an underlying agreement, spelling out the terms and conditions of the rental, royalty or profit sharing, etc. payable. Mining claims may be unpatented or patented, and the necessary performance of work to convert from the initial to the patented stage differs somewhat among the provinces and territories. In order that the accountant might ensure that this asset is properly described in financial statements, both in the body of the balance sheet as well as by way of footnote if desirable, it will be necessary for him to make painstaking reference to the minutes, formal agreements, registration certificates, etc. Generally speak-

ing, legal counsel is employed to protect a company's interest in this connection and is prepared to confirm the actual status at any time with reasonable notice.

After having dealt with that problem successfully, the accountant is now in a position to take on the task of determining the value to be attached to the property. There seems to be a never-ending assortment of "deals", arrangements or agreements to test his imagination and inborn conservative sense of propriety. He will likely think he is surrounded by a horde of unbounded optimists in the persons of the promoters, the vending prospectors, the financial sponsors, etc. All these will clamour in terms of millions on the one hand but keep a wary eye cocked to the impact of taxation by individuals having any personal interest.

In practice it is quite common for an exploration and development company to acquire mining claims by the payment of a combination of (a) a relatively nominal amount of cash and (b) a sizeable block of its capital stock. The value attached to the cash portion of the payment presents no difficulty, of course, but the balance may be inclined to ruffle the feathers a trifle. The capital stock of such a company is popularly created with a par value of $1.00 per share and enjoys the rather unique privilege of being authorized for issuance at a discount that may be as much as 99c per share. It is obvious that success or failure hinges on the ultimate proven value of the ore bodies contained in the claims, but at this stage that is a completely mythical figure. Consequently, whatever value is attached to the claims initially is bound to be either grossly overstated or understated as the development progresses to confirm the occurrence of another dud, a marginal operator, a moderately successful mine or a bonanza.

During recent years there has been a decided trend towards the policy of applying the same price per share to the capital stock issued for claims as that for which the initial issue is being offered to the public. There is much to be said in support of such procedure. However, individual circumstances may suggest or even demand an alternative course and here the accountant and all other principals concerned should devote sufficient attention to the problem in order to assure that the best fit has been obtained. Whatever the basis of valuation adopted, the asset should be properly described in the balance sheet and the exact basis of valuation stated clearly.

In the meantime, an alert and eager management will have left no stone unturned toward moving into production. With the aid of competent engineers, consulting geologists, etc., the exploration and preliminary development program will be mapped out; necessary personnel will be engaged; commitments will have been made for equipment, materials and supplies of endless variety.

Adequate Accounting Records

The accountant is now confronted with his first really important hurdle, and once again early action will undoubtedly pay big dividends in the future. There is a natural inclination on the part of other professionals to minimize the need for adequate accounting supposedly for the sake of economy. Very frequently this attitude has been abetted by the ac-

countant's failure from the beginning to impress forcefully upon the group the importance of accurate recording. It is not necessary for him to insist on the maintenance of extensive and complicated accounting distributions, but the records should provide an accurate up-to-date history of the cost of the various phases of work being performed, each properly described in its correct terminology, such as clearing, stripping, trenching, diamond drilling, temporary roads, temporary buildings, etc.

It has been said that anyone who can distribute costs intelligently will make a good mine accountant, and this stage illustrates well the need for this ability. If accurate costs are to be attained, it is imperative that a timekeeper and a storekeeper should be included in the original field staff on the property in order that labour and material distribution controls will be reliable. The professional accountant who seeks an opportunity for initial consultation and recommendations along these lines will have little difficulty in aiding the management to avoid pitfalls of which they are probably unaware.

Generally speaking, this is the most critical stage in the financing of a mining venture. Substantial sums must be raised ordinarily from the public for an admittedly speculative investment, and consequently it is necessary to incur expensive administrative charges for underwriting, commissions, promotional advertising, etc. Every company wishing to offer its capital stock to the public must file a prospectus beforehand with the securities commission of the province in which the company is incorporated. The prospectus must include a certified financial statement of very recent date (popularly not more than four months prior to the date of the filing of the prospectus), and the financial statement must comply with very specific requirements of the governing securities commission. Complete and revealing information is demanded, particularly in respect of the bases of valuation of assets; the consideration received for capital stock issued divided into cash, other assets, and services; a full recital of outstanding underwriting agreements; amounts paid for commissions on the sale of capital stock, etc. In their accounting or auditing aspects these transactions present few problems of serious nature as long as the accountant exercises reasonable care to confirm the facts and then express them clearly.

Most of the criticisms directed against the financial statements of mining companies operating in the prospecting, exploration and preliminary development field can be eliminated by the professional accountant. He only needs sufficient foresight to plan ahead, in collaboration with the many other "experts" involved, and to take a little extra care in the form and expression he uses in the statements issued over his name.

Next month Mr. Kilner will discuss the subject of accounting for a mine in the construction and production stages.

Recruiting Personnel for the Profession

EDWARD C. WILBURN

In considering recruitment and indoctrination in an accounting practice, the first thought that comes to mind is the problem with which Canadian chartered accountants are faced. For the past few years there has been a serious shortage of applicants, and in the main the applicant can select from a number of firms, rather than the firms from a number of applicants. This brings to light the importance of improving our recruiting techniques to create a greater interest in, and knowledge of, the profession. Steps in this direction have been taken by various Institutes, but still more effort is required if we are to have a complement of registered students, with superior potential, obtained by advanced staff selection methods from a large number of applicants.

Ignorance of the Profession

The university graduate of today who applies to become an articled student seems to have a reasonably good knowledge of the profession and the wide field open to him when he has completed his C.A. training. This knowledge has been gained from representatives of firms or Institutes who visit the universities and interview interested graduates. The contact made is, however, with those already intending to enter the profession and does not reach any who have not shown this interest. Probably we should go back to the high and public school stages to instil an awareness of chartered accountancy in younger students.

Generally speaking, the high school graduate has a very limited knowledge of the opportunities open to him as a chartered accountant. When high school students are asked their reasons for choosing the C.A. profession, many still mention a high standing in mathematics as the deciding factor, although a sound grounding in English is a far more important requisite.

To strengthen our recruiting program, members of the profession should give talks to student bodies in the public and high schools. The students will then have met a chartered accountant and had an opportunity to obtain first hand information about entering the profession. In addition, school counsellors should be supplied with adequate informative literature, although the interest created by personal contact with members of the profession will far exceed that generated by any volume of literature.

There is an ignorance of the profession among the general public. More effort should be made by members to spread this knowledge within their communities. Once we have reached the required objective in this respect, we will have removed a major obstacle in our recruiting program.

Training Period

In the eyes of high school and university graduates, the length of the training period is a most important consideration. The B.Com. graduate who just completed four years will be required to spend an additional three years of intensive study to become a C.A. The B.A. must spend four years. The high school graduate has the choice of commencing the C.A. five year course or going to university and then taking another three or four years, resulting in a seven year period of study.

As a rule, if a student completing high school now wishes to enter most professions, he must attend a university for a number of years. Accountancy is the one exception in which he can obtain a theoretical and practical professional training during the course of his employment. If we were to carry out a sound recruiting program in our high schools, we could, in all probability, create a greater interest in the profession and thus increase the percentage of high school graduates who would enrol in university business and commerce courses with a view to proceeding to the C.A. course after graduation. We would also attract some of the above average high school graduates whose financial circumstances prevent them from going on to university.

Although the period of training is of great concern to the potential student in accounts, it would not be advisable to reduce the requirements.

Rates of Pay

The problem of remuneration is generally of more concern to the university graduate since he is four years older and in many cases, unlike the high school graduate, does not live at home.

There has been a rise in the rates of pay over the past few years, partially due to the great demand for suitable personnel. Generally speaking, students' salaries have now reached an adequate level for their needs. The remuneration in the initial years of the course, however, is still considerably lower than the scale offered by financial and industrial concerns, but the accounting student receives valuable training on the job which he would not get elsewhere.

A long range viewpoint on remuneration must be developed in the minds of potential students. This should be emphasized in contacting high school groups so that interested students are made aware of the remuneration they can expect after they have received their C.A. certificates.

Indoctrination Course

The high school or university graduate entering the profession as an audit clerk usually stays in close touch for a limited period with his friends who have remained in school or college. The first year of articles is the most trying, and his impressions and attitude toward the profession will certainly have an influence on his companions who will be graduating in a subsequent year. With this in mind, a firm or practitioner should give careful consideration as

to methods of indoctrinating an articled student to ensure that he enters professional life with as little adjustment as possible.

A firm taking on several new students each year would do well to set up an introductory course of instruction lasting two days to one week. The most advantageous course will be in lecture and discussion form, with a projector for point reference to working papers, forms, programs, etc.

Its purpose is to lead students into public accounting by indicating the work and responsibility which will be expected when they undertake an assignment as a junior. Verification should be covered from the standpoint of both working papers and audit procedures. The student should gain an understanding of his duties as an audit clerk and also become acquainted with the profession in general. Below is a brief topical outline of a course of indoctrination.

Course Outline

HISTORICAL SURVEY

The historical background of the provincial and Canadian Institutes with mention of the profession's role in the international sphere; the history of the particular firm concerned.

BASIC APPROACH

The basic approach to auditing stressing a clear understanding of the objectives of every engagement, knowledge of the ways or means by which such objectives can be attained, and imagination and resourcefulness in the application of procedures, so that not only are results satisfactory but also that economical use has been made of the time consumed.

This topic could also include materiality in auditing, statement disclosure, place of internal control, and the general policy of accepting clients within the framework of the code of ethics and the exercising of judgment and integrity.

INTERNAL CONTROL

Internal control to be studied under the following headings:

(a) Purpose.
(b) Component parts.
(c) Relationship to audit program.
(d) General instructions as to the preparation of an internal control questionnaire.
(e) Specific areas such as cash receipts and disbursements, sales, etc.

ANALYTICAL REVIEW

A general summary of the nature and purpose of analytical review and its relation to the overall examination of the accounts.

AUDIT WORKING PAPERS

Projection of various working papers on a screen with discussion under the following headings:

(a) *Purposes*—
Necessity to support conclusions reached.
Information required for report, etc.
Aid in handling of the work, or reviewing the work done.
Use in subsequent audits.

(b) *Requirements* —
Statement of extent of work done.
Statement of definite conclusion.
No unintended implications, no unwarranted inferences and no unanswered questions.
Neatness and clarity.

(c) *Advance planning* —
Necessity to give consideration

to use of client's papers or reports, or having the client prepare papers for use.

(d) *Miscellaneous* –
Importance of full explanation of work done. Control of working papers while on an engagement.
Legal responsibility.

Verification of cash balances

Detailed program for verification of cash balances. Discussion of actual fraud cases to impress on the mind of the student what he will be expected to watch for.

The junior audit clerk will without a doubt be performing certain parts of this verification procedure. Time spent in explaining this aspect of the audit will benefit in the performance of subsequent duties.

Test of transactions

Detailed study of the nature of the work to be performed by the student in the first period of training. A general review of the more advanced procedures and the relation of tests of transactions to the audit as a whole.

Verification of accounts receivable

Discussion under the following topical headings with emphasis on audit procedures generally to be performed by the new recruit:

(a) Objectives of verification to determine authenticity, type and description, current or non-current, pledged, secured, etc.

(b) General pattern of verification, including internal control review, collectibility, tests of transactions and computation of turnover rates.

(c) Preparation for report presentation and consideration of any special balances for statement presentation.

Inventories

(a) Objectives in inventory verification.

(b) Basic steps in audit of inventories, including review of internal control, inventory observations, confirmation of inventories in public warehouses, cut-off, turnover, obsolescence, and clients' representations.

(c) Work generally assigned to junior accountants and procedure for inventory observations and test counts.

Property Accounts

(a) Objectives in verification, including existence and ownership of assets, propriety of accounting and appropriate classification and description.

(b) Basic steps in audit of fixed assets, including review of internal control, survey of plant, documentary evidence of ownership, analysis of relative expense and income accounts and enquiry as to liens, etc.

(c) Aspects of verification most frequently assigned to junior accountants.

Liabilities

(a) Objectives in verification to ascertain that recorded liabilities are correct, direct liabilities recorded, proper classification and determination of contingent liabilities.

(b) General pattern of verification, including investigation of internal control, confirmation, search for unrecorded liabilities, investigation of subsequent hap-

penings, letters from attorneys, etc., and liability certificates.

PAYROLLS

(a) Objectives in verification, to determine adequacy and accuracy of records and to detect fraud.

(b) General program for verification, including investigation of internal control, period comparisons, approvals, mathematical testings, rate verifications, observation of distribution and reconciliation of bank accounts.

(c) Work allied to payroll verification, such as review of salary and wage expense accounts, consideration of distribution of payroll charges to inventory, property, etc., examination of accruals and scrutiny of deductions at source.

GENERAL DISCUSSION

Consideration of attitude and conduct of junior accountants, hours of work, preparation of time and expense reports, routine procedures within the firm and general familiarization of the forms, programs, etc.

Advantages of Course

If each member of the firm leads the discussion on his special subject, it will not only give the new student a good grounding on which to start his duties, but will acquaint him with the individuals to be responsible for the supervision of his work.

By such a course, the trainees will also have the opportunity to become acquainted with one another. This is of greater significance in a larger firm where it might be some time before students became acquainted with the entire staff. With this in mind a full staff gathering will aid towards general staff morale.

The division of students into high school graduates and university graduates presents a problem. The latter may have accounting training and will be able to absorb a great deal of the information conveyed by the lecturers. This will not necessarily be so for the high school graduate who has little, if any, accounting training. However, a good high school graduate will be able to learn quickly. The queries he raises in subsequent months will indicate the extent to which he has grasped the course.

Conclusion

To ensure that chartered accountancy gets its share of young men with above average capabilities and potential, members must strive for recognition as a profession by the general public. They must also create an immediate sense of pride and satisfaction in the students engaged, so that their enthusiasm will in turn interest other young men.

Edited by LAWRENCE G. MACPHERSON, F.C.A.

Director of Research, C.I.C.A.

Accounting Research

Statement of Source and Application of Funds

Gertrude Mulcahy, C.A.

In the last decade, the statement of source and application of funds has become well established as a useful document for managerial purposes, but its usefulness as an effective reporting device has not as yet become generally recognized. Since this type of statement or analysis provides answers pertaining to business which cannot be obtained from the balance sheet and statements of profit and loss and surplus, accountants and analysts have, for a long time, urged that it should be included in all annual reports to shareholders.

The funds statement is an important device for bringing to light the underlying financial movements. It is not a statement of receipts and disbursements but traces the business activities for a specified period of time in terms of the impact on working capital. The need for the inclusion of the funds statement in the annual report is based upon the inherent limitations of the income statement and of the balance sheet. While the former sets out the net results of the year's operations, it does not show what has been done with the funds derived therefrom. The latter reports all recognizable resources, liabilities and shareholders' equity as at a given time but does not trace the course of financing operations during the period or the use of the earnings currently retained. Such information, essential to a proper understanding of the actual activities of a business, can be readily obtained from the statement of source and application of funds.

At this time, it is not my intention to develop or comment on the general advantage which has been put forth in support of the inclusion of the funds statement in the annual report to shareholders. However, it is essential to point out that, from the point of view of presenting a clear picture of a company's operating and financial policies and probable future policies, the source and application of funds statement ranks with the income statement and balance sheet in importance and usefulness.

Use in U.S. and Great Britain

Recent surveys of accounting firms and industrial corporations in the United States have indicated that the statement of source and application of funds is used extensively as an external report. It has become an important tool for managerial planning, control and reporting. Mr. J. J. Kempner, reporting on the results of a survey of the practices of some 90 American accounting firms, noted that "A definite trend in the use of funds statement in the auditor's long form report is evident over the past decade. Ten years ago about one-third of the audit reports contained a funds statement, whereas today over two-thirds of the reports include such a statement in one form or an-

other." These proportions are not representative of published reports.

Unfortunately, the trend in the use of the funds statement as an external report has not been nearly so pronounced. The statistical analysis included in the 1956 edition of "Accounting Trends and Techniques" shows that in the annual reports for 1955, 131 of the 600 survey companies (22%) included a statement of source and application of funds. This exhibits a slight increase in the acceptance of this practice, the percentage in 1950 being 19%.

Mr. E. B. Palmer, commenting on the practice in Great Britain in March 1954, noted that the statement of source and application of funds had not as yet received as much publicity in England as it had in the United States and that it had only recently been coming into use as a period statement for management, a synopsis of activities for shareholders, a subsidiary guide for the investigator and a method of budgeting cash requirements.

Canadian Practice

In Canada, as elsewhere, recognition of the statement of source and application of funds as an integral part of the annual report to shareholders is still in the initial stages of development. Although there has not been any indication of an outstanding trend towards the general acceptance of this reporting technique, it is encouraging to note that each year more Canadian companies are providing their shareholders with this type of statement or analysis.

The following summary indicates the current progress that has been experienced within the group of 300 Canadian companies whose annual reports have been analyzed by the C.I.C.A. research staff.

Reports Including Funds Statement

Year	*No. Reports*	*% based on 300*
1953	44	15%
1954	49	16%
1955	55	18%

To date, 275 of the 300 survey companies have submitted their annual reports for the 1956 fiscal year and, of these, 58 have included a statement of source and application of funds.

A comparison of the actual companies included in the totals for each of the years set out above shows that 7 companies who had not followed this practice in 1953 did so in 1954, and 2 companies who had presented a funds statement in 1953 did not do so in 1954. In 1955, 11 additional companies provided the shareholders with this type of information, but 5 discontinued the practice. Of the 55 companies conforming in 1955, 50 followed a similar procedure in 1956, 4 discontinued, and one has not yet submitted its annual report for 1956. Of the 58 reports received to date for 1956 which include a statement of source and application of funds, 8 were issued by companies who had not included this information in 1955. Although the total net increase from 1953 to 1956 is only 14, the above analysis of the changes from year to year in the actual companies shows that in the period a total of 26 companies have added their formal recognition of the importance of this type of disclosure in annual reports.

As was to be expected, there has been considerable variation in the location, title and form in which the statement of source and application

of funds has been presented by Canadian companies. In order to provide an indication of some of these variations, a detailed analysis has been made of the practices followed in the 55 annual reports for 1955.

Location

In 29 cases, the analysis of source and application of funds was presented as a separate formal statement. Although in most instances these statements were set out immediately before or after the company's balance sheet and statements of profit and loss and surplus, there was no indication that the auditor's expression of opinion could be interpreted as including the statement of source and application of funds. In the United States, the auditor's opinion is sometimes extended to cover supplementary statements. In 24 cases, the statement was included in the directors' report, and in 2, it was set out in the financial review section of the report.

Titles

The following is a breakdown of the titles and designations used to identify the statements of source and application of funds included in the annual reports for 1955.

Title — Terminology

Titles or textual remarks including the words:	*No. Cos.*
Source and application of funds	17
Source and disposition of funds	4
Application of funds	4
Sources and use of funds	3
Funds available and applied	1
Funds used	1
Total using word "funds"	30
Changes in working capital	11
Increases or decreases in working capital	8
Receipts and disbursements of working capital	1
Sources and use of working capital	1
Total using words "working capital"	21
Profits applied	2
Application of profits	1
Changes in financial position	1
	4
Total	55

From the above analysis, it is apparent that the source and application concept of the funds statement was emphasized in 27 of the 55 cases (50%) by the use of these words or similar expressions in the title or designation. The word "funds" appeared in 54.5% of the titles and in all of these cases except 2, the term was used as synonymous with "working capital". In both of these exceptions, "funds" was interpreted as including only cash and marketable securities, the changes in the other current assets and current liabilities being set out as items of source or application of funds. In both instances in which the designation "profits applied" was used, the statement started out with items classified as "funds provided". From this was deducted the items of "disposition of funds" to arrive at a balance described as "balance representing an increase in working capital". In the case in which "application of profits" was used, there were no designating captions for the various items. However, the source items and the application items were grouped over sub-totals and the balance designated as "increase in working

capital". The statement described as "changes in financial position" was also, in effect, a statement of factors increasing or decreasing working capital. The items were grouped under two headings "Sources of working capital" and "Disposition of working capital" with the balance being described as "increase in working capital".

It is obvious from the above analysis and discussion that emphasis on flow of working capital holds the predominant position in the funds statement preparation.

FORM

The actual form of the statement of source and application of funds can be classified into three types:

(1) *Balanced form*—in which sources are balanced against applications of funds with the actual increase or decrease in working capital being included as an item of application or source respectively.

(2) *Report form, remainder type*—in which the applications of funds are deducted from the sources with the remaining balance reflecting the actual increase or decrease in working capital.

(3) *Report form, reconciling type*—in which the sources are added to and the applications deducted from the balance of working capital at the beginning of the period to arrive at the balance at the end of the period. "The reconciling type is a rather recent innovation and may be expected to show an increase in the future. The advantage of this presentation lies in its ability to clarify the movement of funds. The company begins its fiscal period with an opening funds balance; certain increases and decreases in the level of funds occur during the year; and an ending balance is presented at the close of the period."[1]

Examples 1, 2 and 3 set out on pages 53-5 have been selected from actual financial reports to illustrate and contrast the three types of statements.

The following summarizes the form of statement used by the 55 Canadian companies:

Form of Statement

	No. Cos.
Balanced form	15
Report form, remainder type	33
Report form, reconciling type	7
	55

In 60% of the statements, the report form, remainder type was used. In order to assist the reader in understanding the significance of the balance designated as an increase or decrease in working capital, 9 of these 33 statements provided a supplementary analysis showing the calculation of the working capital at the beginning and at the end of the period. The difference in these two figures tied in with the balance in the funds statement. In 4 other cases, this balance was explained by a detailed summary of the increases or decreases in the individual current asset and current liability items, in the form of what some financial and accounting texts call a statement of changes in working capital.

[1] J. J. Kempner, *Accounting Review*, January 1957.

Example 1

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1955

Source of Funds:	
Net earnings before income taxes	$3,247,614
Depreciation	1,082,611
Proceeds from sale of equipment, less profit thereon included above	18,271
	$4,348,496
Application of Funds:	
Additions to fixed assets	$1,804,891
Dividends	625,000
Income taxes	1,492,949
Increase in working capital	425,656
	$4,348,496

DETAILS

Because of the diversity of circumstances which result in a source or application of funds, the actual details of the statements varied considerably between companies. However, in most cases, the actual amount of detail was kept to a minimum. A definite preference was indicated for the presentation of a single net income figure with the add-back of depreciation and other non-cash charges in the "funds provided" section of the statement rather than for the inclusion of detailed operating data.

Only 4 of the 55 statements contained a detailed listing of those operating revenues which provided funds together with those operating expenditures requiring application of funds. Under this technique the depreciation and other non-cash charges are eliminated from the statement completely. This form of presentation has been suggested as a means of avoiding confusion which might be caused by the "add-back" of charges not requiring cash outlay. However, the inclusion of detailed operating data makes the statements more difficult to understand. They become very lengthy and a reader has to go through the statement and pick out the various income and expense items, in order to arrive at a figure which represents the net funds derived from the company's operations. If properly presented, there should be no confusion in the mind of the reader that the technique of adding back non-cash charges is simply a means of eliminating these charges from other operating expenditures in order to arrive at the funds provided by profits.

In all of the remaining 51 statements, except one, the net fund derived from or applied by current operations before add-backs could be readily reconciled with the figures contained in the statement of profit and loss. Forty-two statements used the net profit figure as set out in the statement of profit and loss, 4 used net profit before income taxes with the income tax provision being set out as an item of application, 3 used a figure described as "retained earnings" which was equal to the net profit for the year less dividends paid

as set out in the earned surplus statement, and one used a figure described as "income before depreciation less adjustments to earned surplus" which was very easily computed by reference to the profit and loss and surplus statements. In the one exception, the figure in the funds statement was described as "net profits and other revenues and charges after deducting income taxes". This figure was slightly higher than the net profit set out in the statement of profit and loss, but no attempt was made in the report to explain the difference.

There did not seem to be any standard treatment for the add-back of non-cash charges in these 51 statements. In 3 of the statements, no add-back was necessary, either because no current provision had been made for depreciation and no other non-cash charges existed (2 cases) or because the figure for income before depreciation had been used as a starting figure (1 case). The current provision for depreciation in one of the statements was included in an item of source described as "decrease in fixed and sundry assets". No indication was made as to the proportion of this figure that represented an add-back of current depreciation.

The following table summarizes the treatment of non-cash charges in the other 47 statements:

Example 2

STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

for year ended December 31, 1955

Sources of Funds:		
Operations —		
Net profit for year	$ 5,471,290	
Depreciation	3,525,885	
Tax reductions arising from additional depreciation	4,510,000	$13,507,175
Proceeds of sale of common shares		3,000,000
		$16,507,175
Disposition of Funds:		
New plant facilities	$14,811,649	
Dividends on —		
Preferred shares	338,139	
Common shares	1,812,000	
Redemption of debentures	367,500	
Reduction in other assets	(6,974)	17,322,314
Reduction in working capital		$ 815,139
Working Capital —		
January 1, 1955	$13,809,585	
December 31, 1955	12,994,446	
Reduction		$ 815,139

Example 3

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended September 30, 1955

(*with comparative figures for the year ended September 30, 1954*)

	1955	*1954*
Working capital at start of year	$13,084,926	$11,883,571
Add: Sources of working capital:		
Net profit for year	$ 3,686,156	$ 2,185,725
Charges against profit not involving expenditure of funds in current year, including depletion, depreciation and amortization of logging roads	3,477,887	3,395,685
	$ 7,164,043	$ 5,581,410
Proceeds of disposals of fixed assets	113,185	190,621
	$ 7,277,228	$ 5,772,031
Deduct: Applications of working capital:		
Expenditures on timber, fixed assets and timber development, including logging roads	$ 3,606,930	$ 3,183,780
Expenditure, net, on investments and non-current receivables	116,423	(79,104)
Reduction of long term debt	447,000	666,000
Dividends	892,730	800,000
	$ 5,063,083	$ 4,570,676
Working capital at end of year	$15,299,071	$13,084,926

Treatment of Non-Cash Charges

	No. Cos.
Set out as separate items in source section	35
Set out as separate items — added back to net profit over a sub-total designated as funds derived from operations	6
Set out as separate items—added back to net profit over sub-total in the source section; no designating description of sub-total	6
	47

From this breakdown, it is apparent that the predominant practice is to present the add-back of non-cash charges as items of source rather than as an adjustment of the net income figure.

In order to emphasize the non-cash character of these items, in 28 of the statements the descriptions were expanded by the use of such phrases as: "charges to income which did not involve an outlay of cash", "not involving cash payments during the year", "not requiring a cash outlay", "not requiring the use of working capital", "non-cash charges to profit and loss", etc. In 19 statements,

designations such as "depreciation", "provision for depreciation", "amortization of bond discount", etc. were used without any further elaboration or explanations.

A breakdown of the non-cash charges included in the statements discloses that, in addition to depreciation, the following types of add-backs appeared: income taxes deferred to future years, depletion, amortization of bond commissions, amortization of bond discounts and expenses, amortization of logging roads, etc.

Because of the exigency of space, the examples of actual statements selected are relatively simple and compact and do not reflect the wide variety of sources and applications of funds which are frequently found. They do, however, illustrate the various techniques used by Canadian accountants in this area of financial reporting.

AN INTELLECTUAL OCCUPATION

As a fundamental, ours [accountancy] is an intellectual occupation and one of dignity. Its work must be done in such a way, and in such surroundings, as to contribute to both of these. The income from practice should provide a comfortable office of such quality as to lend dignity to the operation; an adequate library which, in the case of accountancy, is a rather large and expensive one; competent secretarial and clerical assistance; office machines, etc.

But above all, since this is an intellectual occupation, it must provide sufficient leisure for thought and advanced study. The period of study lasts throughout life, and the cost of pursuing it, whether measured in time or in out-of-pocket dollars, is perhaps the most justifiable part of the accountant's operating expense. And again, because this is an intellectual occupation, the practice should yield financial returns to cover these things without the burden of excessively long hours devoted to work, and without the pressure of attempting too much work within any one hour, either of which impairs fatally the intellectual process.

—From an address by Marquis G. Eaton, president of the American Institute of Certified Public Accountants, in *The Journal of Accountancy*, June 1957.

Edited by GEOFFREY H. WARD, C.A.

Practitioners Forum

Efficient Use of Audit Staff's Time

The talk given by Mr. C. K. MacGillivray, F.C.A. of Hamilton, at the Ontario Institute's 1956 conference provides the basis of this month's column. The following comments are condensed from his talk.

The growth problems of a small or medium-sized firm of chartered accountants, plus the need for providing the academic training and practical experience of students-in-accounts, may result in a tendency to overlook obtaining maximum reasonable efficiency from the work of the accounting and auditing staff. Efficiency must be given careful attention, as it affects the maintenance of a reasonable fee level, the salaries which the firm can afford to pay, the net income of the partners, and even the proper training of the staff itself. The principle of maximizing productive time and minimizing unproductive time should be kept continuously before all employees.

Cooperation

The most important element for success in time efficiency is cooperation. Unless the employees are impressed with the need, and are regularly striving to save hours, their time will not be used effectively. Great benefit can be derived from the latent effort and ability of all employees, many of whom can make substantial contributions to efficiencies and will do so if encouraged.

Importance of Senior Men

The senior man in charge of each job has the greatest effect on the effort, as he is in the best position to supervise job costs. Every senior should be coached carefully on time efficiency. He should have necessary knowledge of the terms of the engagement, the anticipated fee and the previous cost experience. Any firm that tries to keep its senior men in the dark as to its time records or basis of charging fees will handicap itself by not using all the talent which it has available.

At the commencement of an annual audit, the senior in charge of the job should be furnished with the details of time spent on the same assignment for the previous two years. These figures should show the time spent, divided into the various personnel cost classifications, and the total direct out-of-pocket expense. On new jobs or special engagements, a partner should advise the senior concerning the approximate fee envisaged or time estimated. As this preliminary limit may change several times during the course of special work, communication between senior, partner and client is necessary if an understanding is to be maintained as to the contemplated fee. In this way, one large source of loss, the expenditure of time on work for which clients are not prepared to pay, can be avoided to a large extent.

With a record of previous time or

a tentative forecast on new work, the senior has an objective on each job which challenges his ingenuity. He is anxious to make a good showing and will be constantly conscious of time costs. An incentive bonus system for senior men could be tied in part to their effectiveness in cost control.

Various Job Efficiencies

The staff can economize on time in many ways. By planning and persuasion, they can often arrange for a client's staff to prepare schedules and do other preliminary work which otherwise would absorb the auditor's time. Junior clerks may have a tendency to work together, say at calling and checking vouchers, when they could perhaps accomplish more if one did the whole voucher task and the other some different item on the program. Whenever possible, the work assigned a man should match his qualifications and abilities so that senior or intermediate men will be kept off the less important details as much as is practicable. Advancing young students as rapidly as their abilities permit is also desirable.

During outside assignments, visits to the office of the firm should be avoided as much as possible so as to limit unproductive time. Men in the field should go directly to clients' offices at the commencement of the business each day whenever practicable. The office hours of clients during summer and winter should be on file so that the audit staff can conform with each particular client's working hours. Juniors or even the mails can be used to send papers back and forth from the job to the office.

The audit program and monthly tests may be arranged with a view to time saving or the performance of detailed checking in off-season periods, wherever it does not interfere with the effectiveness of the audit. The supervising partner, of course, should correct any over-enthusiasm by the senior which might tend to affect the adequacy of the audit, quality of the work, or proper training of the students.

Work Planning

There is also need for careful planning of work in the firm's own office. A weekly time plan is very essential for any firm with more than half a dozen employees. The larger firms might beneficially plot their work over a period of two weeks or longer. The assignments may be plotted in pencil on a broad sheet with columns for half-days of the week, with each partner's and employee's name listed at the side. The plan must be kept flexible to allow for jobs which take a longer or shorter time than anticipated, and for unexpected work, illness or other changes. No later than each Friday, the senior men should report their plans and staff requirements for the coming week to the partner in charge of the programming. The latter is then responsible for staff allocations and for seeing that all the personnel are most beneficially employed. He would try to have one or two men on jobs which were not urgent, in case they had to be transferred to jobs which were.

Office Manual

The preparation of an office manual with general rules of procedure, instructions for working papers, financial statements and tax forms will remove many uncertainties and speed up end results. In the long run, it

is well worth the initial time spent in its preparation.

Filler Jobs

One record which should be kept is a backlog of unassigned time. On this record will be entered work not booked for a specific date which may be done at almost any convenient time of the year, such as special short tests, surveys requested by clients, transferring old files or stripping old working papers. Whenever any member of the staff finds himself with free hours in view, he should at once report the situation to the partner responsible, so that a selection of filler time to match his capabilities may be made quickly.

Specialists

The development of specialists, as well as attracting clients, brings further efficiency within the office. In place of individual digging and delving by all personnel on such matters as sales tax, succession duties, business interruption insurance, the "specialist" on that subject can often quickly provide the answer. Even in a smaller firm with only three or four seniors, the allocation of specialized matters among them would be beneficial. Each senior and graduate in the firm should choose a subject which he will study very fully and on which he will keep up to date, so that he will be well qualified to help other members of the firm and clients.

Use of a Bookkeeper

The use of a full time bookkeeper within the firm's own office is a great time saver. In small and medium-sized firms, a great deal of time is spent preparing and posting, adjusting, closing and reversing entries for clients. Having an employee in the office concentrate on this work when necessary will allow the field staff to press on quickly to more important work. Moreover, this will help overcome the current problem of shortage of students. The bookkeeper can be kept regularly employed if used on the firm's own records, as well as on bookkeeping jobs for clients. It is also advisable to place the firm's own financial year end in the quiet months.

Various Other Factors

It is desirable to remind clients frequently of the need to give adequate warning if they are going to make any special demands on the firm. Choosing appropriate financial year ends for new businesses and changing year ends of clients from December 31 to any other date will promote more effective use of time.

Other factors which affect the productivity of employees are careful staff selection, proper indoctrination, maintenance of morale, setting of a good example by senior men, and provision of adequate equipment and suitable working conditions within the office.

* * * *

The importance of using staff time efficiently is freely acknowledged. As Mr. MacGillivray has demonstrated, there are many aspects to consider and procedures to follow if the desired results are to be achieved.

BY A. WILLARD HAMILTON, C.A.

Tax Review

ONTARIO CORPORATION TAXES

On March 29, 1957, third and final reading was given in the Ontario Legislature to a bill entitled "The Corporations Tax Act, 1957". This legislation re-established in Ontario corporation income and capital and place of business taxes, a field which had been "rented" to the federal government during the past five years.

It is only possible in this review to discuss briefly some of the more salient features, and in particular certain inconsistencies which presently exist in the rules of allocation as established by the federal government, the Province of Ontario and the Province of Quebec, respectively. There have been recent suggestions of probable changes in both the federal and the Province of Quebec rules, but until these changes are actually made corporate taxpayers transacting business in Ontario may be seriously and adversely affected by the variations.

The comments which follow deal first with income taxes and second with capital and place of business taxes. It should be noted that the special business taxes on capital and places of business are only exigible to the extent that they exceed the corporation income tax payable.

Income Tax

The general scheme of the provisions relating to the Income Tax Act is clearly enunciated by the provincial treasurer in his budget address, in the following words:

> "A new corporations tax will be introduced under which all corporations now taxable under the Income Tax Act of Canada that transact business in Ontario will be taxed at the rate of 11% of the income they earn in this Province. The new rate will be effective January 1, 1957. The measurement of taxable income will be precisely as defined in the Income Tax Act of Canada. The allocation of taxable income between Ontario and other provinces where the corporation concerned does business outside Ontario, as well as in Ontario, will also be as provided by the Income Tax Act and Regulations of Canada."

LIABILITY FOR TAX

Every company which has a permanent establishment in Ontario will be liable to pay the taxes imposed by the Act. The definition of permanent establishment in the Act is similar to that now contained in the federal income tax regulations except for the following additional features:

1. A permanent establishment is defined as including land.
2. A corporation is deemed to have a permanent establishment in any jurisdiction where it has assets.
3. An office solely for the purchase of merchandise is deemed to be a permanent establishment.

4. A corporation is deemed to have a permanent establishment at any location in Canada where it produced, grew, mined, created, manufactured, fabricated, improved, packed, preserved or constructed, in whole or in part, anything, whether or not the corporation exported that thing without selling it prior to exportation.
5. A corporation is deemed to have a permanent establishment at the place designated in its charter as its head office.

Calculation of Taxable Income

Generally speaking, the provisions for the calculation of taxable income are the same as those contained in the federal Income Tax Act. In addition, there is a transitional provision that, for purposes of determining loss carry-over amounts and tax-paid reserves, etc., the taxable income for years prior to 1957 will be as calculated under the federal Act. Provision has been made to prorate the profits of companies which have a fiscal year ending on a date other than December 31, so that only the proportion of profits earned from January 1, 1957 will be subject to Ontario income taxes. There are some notable omissions to the Ontario Act which, however, have limited application, for example:

(a) Taxation of dividends paid out of so-called "designated surplus";
(b) The cut-off at the end of 1949 of net capital profits or losses in the determination of undistributed income on hand.

The regulations required under the Ontario Act regarding capital cost allowances, depletion, etc. are not yet available, but presumably they will follow the pattern of the federal income tax regulations.

It would also appear from the foregoing extract of the budget address of the provincial treasurer that uniform rules, as between the federal and Ontario Government, are anticipated by virtue of the statement that "the measurement of taxable income will be *precisely* as defined in the Income Tax Act of Canada".

Calculation of Income Tax

The rate of income tax imposed is 11%. This rate of tax is applied to the entire taxable income, except such portion as may be allocated to jurisdictions other than Ontario. The basis of allocating income is different from that prescribed in the federal regulations in the following respects:

1. As already indicated, the definition of permanent establishment in the Ontario Act differs, in some respects, from that contained in the federal regulations.
2. Allocation of income on the basis of separate accounting, which is the primary basis of allocation for federal tax purposes, is not being recognized for Ontario tax purposes.
3. The general formula for allocation is the same as the alternative method allowed for federal tax purposes, *viz* the average of the ratios of gross revenue and salaries and wages in Ontario to total gross revenue and total salaries and wages respectively, but in addition there are the following special provisions:
   (a) Where a corporation ships goods to a customer from a permanent establishment, the gross revenue is attributed to such permanent establishment.

(b) Where a corporation sells standing timber, the gross revenue from the sale is attributed to the permanent establishment from which the standing timber was taken.

(c) Where goods are shipped directly from a corporation's supplier to its customer, the gross revenue is attributed to the permanent establishment to which the person negotiating the sale may reasonably be regarded as being attached.

The provisions for the allocation of taxable income of special types of business such as insurance, banking, railways, etc. are the same as contained in the federal regulations except that there is an additional provision for the allocation of income from the operation of ships.

Investment companies and electric, gas or steam utilities are subject to the regular rate of income tax of 11%. The provisions regarding railways and crown corporations are similar to those contained in the federal Income Tax Act.

In the years 1947 to 1951 inclusive, mining and logging companies were allowed a special deduction from the income subject to Ontario corporation income tax in respect of the portion of their income taxed under the mining and logging tax acts, respectively. This deduction will no longer be allowed under the Ontario Corporations Tax Act and mining and logging companies will be subject to the 11% income tax on all their income (subject to a three-year exemption of income from new mines). The mining and logging taxes will now be allowed as a deduction from income for Ontario, as well as federal, corporation income tax purposes.

Federal and Quebec Tax Credits

Under section 40 of the federal Act a deduction is allowed, from the tax otherwise payable by a corporation, equal to 9% of its taxable income earned in a prescribed province, and it may be assumed that this provision will be made applicable to Ontario taxes now that this province has re-entered the corporation tax field.

The federal rules for determining the amount of taxable income earned in a province are set out in Part IV of the federal regulations. In determining the allocation of such taxable income to the permanent establishment in a province, the significant words are "reasonably attributable", and it is understood that federal assessors give considerable weight to the sales effort in deciding to which establishment gross revenue shall be allocated. However, the Ontario Act provides that the origin of shipments shall determine the allocation of gross revenue and it will be seen that there can be materially different results in applying the federal and Ontario methods as now constituted.

Similarly, there presently exists a sharp conflict in the Ontario and Quebec methods for, as stated, sales from a plant in Ontario will be considered as Ontario sales under section 4(6)(a) of the new Ontario Act. Any such sales consigned to a customer residing in Quebec would be treated as Quebec sales under the present Quebec rules.

If a company has permanent establishments only in the Provinces of Quebec and Ontario, it is immaterial to which province gross revenue is attributed under the federal rules, as

the federal credit would be unaffected thereby. Where, however, the business of the corporation is carried on in permanent establishments in other provinces, differences in allocation may well result in a tax disadvantage.

Of probable greater importance is the conflict between the Quebec and Ontario rules, under which corporations doing business in both provinces may encounter additional provincial taxes considerably greater in amount than the two percentage points which Ontario has established over the Province of Quebec through the adoption of the 11% rate.

Under section 12(4) of the Federal Act a deduction from income is allowed in respect of provincial corporation taxes, which deduction is limited to the excess of the corporation taxes and corporation income taxes paid to a province, over the greater of 9% of the taxable income earned in the province or such other percentage as is prescribed by regulation. While the regulations have not yet been issued, it is quite possible that the deduction allowed in respect of these two Ontario taxes will be limited to the amount of capital and place of business taxes that may be payable and will not include as an allowable deduction any of the additional corporation income tax represented by the extra 2% already referred to.

There is no provision for an Ontario provincial credit in respect of foreign taxes paid on income subject to tax in Ontario.

Returns and Payments of Tax

The tax return required under the Act is due for filing six months after the end of the fiscal year. The estimated tax is payable in four equal instalments on the fifteenth day of the fifth, eighth, and eleventh months of the fiscal year and on the fifteenth day of the second month following the fiscal year-end. If the tax is estimated to be less than $81, it may be paid in a single instalment on the fifteenth day of the second month following the fiscal year-end. Any balance of tax is payable with the filing of the return. There is a transitional provision that any payments of tax which would otherwise be due before May 15, 1957 are not due until that date.

Capital and Place of Business Taxes

The budget address of the provincial treasurer contained the following statement:

> "The province's special business taxes on capital and places of business, which were in effect from 1947 to 1951 inclusive, will be reimposed at the same rates as applied under the Ontario Corporations Tax Act which was suspended at the end of 1951, except that any corporation income tax payable to the province will be deductible from the special business taxes (excluding the insurance premium tax) otherwise payable, so that the amount of the special taxes (excluding insurance premium tax) will be payable only to the extent that they exceed the amount of the Ontario corporation income tax to which the companies are subject. In effect, excluding the insurance premium tax, companies will pay an amount equivalent to the higher of the corporation income tax or the special business taxes."

The general rate of capital tax is

1/20 of 1%. The definition of paid-up capital is similar to that contained in the previous Ontario Act, and allowance is made for paid-up capital allocated to other jurisdictions. The allocation of paid-up capital is based on the average of the ratios of gross revenue and salaries and wages in Ontario to total gross revenue and total salaries and wages respectively, except in the case of airline companies where a special basis is prescribed.

The general rate of place of business tax is $50, subject to the following exceptions:

1. Where the taxable paid-up capital is less than $100,000, the place of business tax is 1/20 of 1% of the taxable paid-up capital, providing that the total of the capital and place of business taxes is at least $20.
2. In the case of a non-operating company, with its head office in Ontario, or a mining company, under certain circumstances, the place of business tax is $20 and, in the case of certain organizations exempt from income and capital tax, the business tax is $5.

In addition to the general rates of capital and place of business tax described above, there are special taxes payable in the case of banks, railways, telegraph companies, express companies, car companies and insurance companies similar to those previously levied by Ontario. Ontario income tax payable is allowed as a credit against these special taxes except in the case of the premium tax on insurance companies.

It should be noted that there is no provision for proration of the special business taxes on capital and places of business where the fiscal year of the company does not coincide with the calendar year. The full amount of tax will be chargeable in respect of any fiscal year ending after December 31, 1956.

Special Cases

The following corporations are exempt from income and capital tax:

Municipal authorities, municipal or provincial corporations, agricultural organizations, boards of trade or chambers of commerce, charitable organizations, non-profit organizations, mutual insurance corporations, credit unions, housing corporations, personal corporations, non-resident-owned investment corporations, foreign business corporations, cooperatives, pension trusts or corporations, profit-sharing plan trusts, supplementary unemployment benefit plan trusts, farmers' and fishermen's insurers.

Regular place of business tax is payable by municipal authorities, mutual insurance corporations, personal corporations, non-resident-owned investment corporations, foreign business corporations and farmers' and fishermen's insurers. All the other corporations listed above pay a reduced place of business tax of $5.

BY J. E. SMYTH, F.C.A.

Associate Professor,
Queen's University

Students Department

PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by qualified accountants and reflect the personal views and opinions of the various contributors. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problem as will make its study of benefit to the student. Discussion of solutions presented is cordially invited.

PROBLEM 1

Intermediate Examination, October 1956
Accounting II, Question 1 (10 marks)

Compare a partnership with a limited company under the following headings:

(*i*) Financing the business.
(*ii*) Liability of members.
(*iii*) Continuity of existence.
(*iv*) Number of members.
(*v*) Ownership and management.

NOTE TO STUDENTS: *Ignore any income tax considerations.*

A SOLUTION

COMPARISON OF A PARTNERSHIP WITH A LIMITED COMPANY

(i) Financing the business

A partnership is financed by the individual partners, who are the main source of capital for the firm. In many instances credit is readily available because each partner is personally responsible for the debts of the partnership. In a company, certain strict legal requirements must be met before securities may be offered on the market. Once these requirements are met, however, large sums of money may be raised from public sources by the issue of capital stock or bonds.

(ii) Liability of members

Each partner may be held responsible for all debts of the firm in a general partnership. In a limited partnership, the liability of certain of the partners is limited to their respective contributions of capital. A limited company, on the other hand, is considered to be an entity and as such is responsible for its own debts. Each shareholder is liable only for the cost of his shares.

(iii) **Continuity of existence**

Because death, disability or the withdrawal of a partner terminates the partnership, the organization is less stable than a corporation. A limited company is not terminated by the death, disability or withdrawal of any of the shareholders. A limited company ceases to exist only when it is wound up under requirements set out by law.

(iv) **Number of members**

A partnership may consist of any number of members from two up, with each member being liable for the debts of the firm and also participating in the management of the firm. A company may have any number of shareholders from three up, but a company is managed by a board of directors usually comprising three to seven shareholders. These directors are, in turn, responsible to all shareholders of the company.

(v) **Ownership and management**

A partnership is owned and actively managed by the partners. The direct responsibility placed on each partner is conducive to the exercise of an individual's best effort and enterprise. The control of a partnership is, however, divided, with a consequent danger of disagreements in policy and administration.

A limited company is owned by its shareholders and the management is in the hands of a board of directors who are responsible to the shareholders. The directors, in turn, delegate the administration of the business to its executive officers.

PROBLEM 2

Intermediate Examination, October 1956

Accounting II, Question 2 (12 marks)

F Co. Ltd. operates a central warehouse and a chain of retail stores. A complete set of accounting records is maintained at the head office. Perpetual inventory records are kept at cost price for goods in central warehouse, and at retail price for goods at the stores. Goods are shipped from the central warehouse to the stores and charged to them at retail price. This price is calculated at a mark-up of 10%, based on cost, to give the wholesale price, and a further mark-up of 20%, based on the wholesale price, to give the retail price.

Profit is determined separately for the central warehouse and for each of the stores. The stores remit cash to head office weekly together with a statement of unpaid credit sales. The books are closed quarterly.

The following data relating to store A, which was opened on January 2, 1956, is available for the quarter ending March 31, 1956:

Shipments at retail price	$112,728
Cash remitted to head office on account of store's sales to March 31, 1956	90,896
Store expenses paid by head office	3,500

Store A reported that as at March 31, 1956, the outstanding accounts for credit sales amounted to $1,900.

Required:

Journal entries on the head office books, complete with narratives, to record the above transactions and to show the warehouse gross profit and the retail profit for store A for the quarter ending March 31, 1956.

A SOLUTION

BOOKS OF F. CO. LTD. (HEAD OFFICE)

			Dr.	Cr.
1956				
Mar. 31	Inventory — store A		$112,728	
	Inventory — central warehouse			$85,400
	Deferred profit — central warehouse			8,540
	Deferred profit — store A			18,788
	To record merchandise shipments to store A for quarter ending March 31, 1956. Warehouse mark-up 10% on cost. Retail mark-up 20% on wholesale price.			
31	Accounts receivable — store A		92,796	
	Inventory — store A			92,796
	To record sales for store A for quarter ending March 31, 1956			
	Accounts receivable 31/3/56	$ 1,900		
	Cash remittances	90,896		
		$92,796		
31	Deferred profit — central warehouse		7,030	
	Deferred profit — store A		15,466	
	Profit and Loss — central warehouse			7,030
	Profit and Loss — store A			15,466
	To record earned portion of deferred profit on sales of store A for quarter ended March 31, 1956			
31	Bank		90,896	
	Accounts receivable — store A			90,896
	To record collections on account for store A for quarter ended March 31, 1956			
31	Expenses — store A		3,500	
	Bank			3,500
	To record expenses of store A for quarter ended March 31, 1956			
31	Profit and loss — store A		3,500	
	Expenses — store A			3,500
	To close expenses into Profit and loss account — store A, for quarter ended March 31, 1956			

Examiner's Comments

1. While the question stated that perpetual inventory records were maintained, many candidates charged the retail value of shipments to "Store A" instead of to "Store A inventory".
2. A number of candidates assumed that the gross profit on warehouse shipments to the store was earned when the goods were shipped, rather than in the proportion of actual sales by Store A.

PROBLEM 3

Final Examination, October 1956

Accounting II, Question 2 (14 marks)

Q has asked for your assistance in calculating his income taxes payable for the year 1955. He gives you the following information:

(i) Q was a partner in a business whose normal fiscal year ended on April 30. His share of the income for the fiscal year ended April 30, 1955 was $18,100.

(ii) On June 30, 1955, Q retired from the partnership. His share of the income of the partnership for the period from May 1 to June 30, 1955 was $5,000.

(iii) From July 1 to December 31, 1955, Q was employed as the general manager of a retailing enterprise at a monthly salary of $2,250.

(iv) Q had also received the following income during 1955:

Interest on Government of Canada Bonds	$1,000
Dividends from Canadian Industrial Co. Ltd.	1,700

(v) Q is a married man, with three children aged 12, 19 and 21. The two oldest children are attending university and have earned $200 and $800 respectively during the summer of 1955. His wife has no income.

(vi) Q's mother resides with him and he estimates that he contributed $600 towards her support in 1955. She has no income other than old age pension.

(vii) During 1955, Q donated $2,500 to Canadian charitable organizations for which he has receipts.

(viii) During 1955, Q paid a total of $3,000 in medical expenses in connection with his wife's illness. Additional expenses amounting to $1,500 had been paid by group medical plan, into which Q had paid $200 in 1955.

Required:

Your calculation of the minimum income tax payable by Q for the year 1955.

Editor's Note: A table of federal tax payable by an individual at 1955 rates was provided with the examination. The table included the following parts:

(g) $2,220 plus 34% of the amount by which the amount taxable exceeds $10,000 if the amount taxable exceeds $10,000 and does not exceed $12,000.

(h) $2,900 plus 39% of the amount by which the amount taxable exceeds $12,000 if the amount taxable exceeds $12,000 and does not exceed $15,000.

(i) $4,070 plus 44% of the amount by which the amount taxable exceeds $15,000 and does not exceed $25,000.

A SOLUTION

Q

Minimum Tax Payable for the Year 1955

Calculation of taxable income			
Income from partnership and employment (see note 1 below): 365/610 of $36,600			$21,900
Other income:			
Interest on bonds		$1,000	
Dividends		1,700	
			2,700
Net income			24,600
Deduct			
Personal exemptions:			
Married	$2,000		
Son (under 16)	150		
Sons (19 and 21)	800		
Mother	400		
		3,350	
Charitable donations (maximum)		2,460	
Medical expenses			
Total paid	4,500		
Less 3% of $24,600	738		
		3,762	
			9,572
Taxable income			$15,028

Calculation of minimum tax payable		
On the first $15,000 the tax is	$ 4,070.00	
On the next 28 the tax at 44% is	12.32	
$15,028		$ 4,082.32
Surtax on investment income		—
Excess of salary earned by son over $750		50.00
		4,132.32
Less dividend credit – 20% of $1,700		340.00
Total normal tax		3,792.32
Special tax:		
Applicable on balance of income from partnership and employment (see note 2): 245/610 of $36,600	$14,700	
Special tax is $\frac{3,792.32}{15,028.00}$ x 14,700.00		3,709.55
Minimum tax payable		$ 7,501.87

Editor's Notes:

Note 1: Q's income is distributed as follows:

Partnership —		
April 30, 1954 to April 30, 1955	365 days	$18,100
April 30, 1955 to June 30, 1955	61 days	5,000
		23,100
Employment —		
Salary June 30, 1955 to December 31, 1955	184 days	13,500
Total	610 days	$36,600

Note 2: In order to pay the minimum tax, Q should elect to be taxed under section 37(2) which provides for a normal tax on a portion of the income and a special tax on the residue. This section reads in part as follows:

"(2) Where there would otherwise be included in computing the income of an individual for a taxation year under this Part

(a) income from

(i) a business of which he was the proprietor at a time when he did not carry on and was not a partner in any other business and was not an employee, or

(ii) a partnership of which he was a member at a time when he was not a member of any other partnership, did not carry on any business of which he was the sole proprietor and was not an employee,

for each of one or more fiscal periods ending in the year, and

(b) income from any employment that was received after ceasing to carry on the business or withdrawing from the partnership,

and the aggregate of the number of days in the fiscal periods and the number of days in the taxation year during which he was so employed after ceasing to carry on the business or to be a member of the partnership is greater than the number of the days in the taxation year, the following rules are, if the taxpayer so elects, applicable:

(c) the taxpayer's income from the business or partnership and the employment for the taxation year shall be deemed for the purpose of this Part to be the proportion of the aggregate of the incomes therefrom that the number of days in the taxation year is of the aggregate of the number of days in the fiscal period or periods plus the number of days in the taxation year during which he was so employed after ceasing to carry on the business or to be a member of the partnership; and

(d) the taxpayer shall pay in addition to any other tax payable for the year a tax on the amount by which the aggregate of the incomes from the business or partnership and the employment for the taxation year exceeds his income from the business or partnership and the employment for the year determined under paragraph (c) equal to the proportion thereof that the tax payable under this Part for the year (other than the tax payable under this paragraph) is of his taxable income for the year when the amount included as income from the business or partnership and the employment is the amount determined under paragraph (c);

but when a taxpayer elects to have those rules applicable for a taxation year, no amount is deductible under paragraph (e) of subsection (1) of section 27 in respect of the same business in computing his taxable income for the year."

Examiner's Comments

A considerable number of candidates were either unaware of the provisions of section 37 of the Income Tax Act or were unable to apply them correctly to the facts of this question.

PROBLEM 4

Final Examination, October 1956

Accounting II, Question 3 (20 marks)

J, the accountant of the B Co. Ltd., a manufacturing concern, has been asked by the board of directors of the company to prepare a budget for the forthcoming fiscal year. J has had very little experience in the preparation of budgets and has asked CA, the shareholders' auditor, for advice.

He asks CA the following questions:

(12 marks) (i) What statements or schedules should J request from the various departmental managers and what information should be included in each of these?

(4 marks) (ii) What statements would be included in the completed budget?

(4 marks) (iii) What purposes does a budget serve?

Required:

The answers that CA would give to the questions asked by J.

A SOLUTION

(i) Statements required from the manager of each department

(1) A schedule of estimated sales for the department, setting out:
   a) Sales by products in terms of both volume and price.
   b) Sales broken down by months and by products.
   c) Sales by territories.
   d) Sales by classes of customer.

(2) A schedule of monthly estimated production within the department, setting out a plan of production to meet the requirements of the estimated sales and to keep up the inventory in quantities by products.

(3) A schedule of monthly and total costs of production in the department, by products, setting out:
   a) Volume and dollar values of purchases of materials in order to meet the production schedule and maintain the inventories at a normal level while still taking advantage of discounts.
   b) Hours and dollar values of labour required to meet the production schedules, for each class of labour.
   c) Fixed factory service costs, and the basis of their allocation to production.
   d) Variable factory service costs which will be incurred in meeting the production schedules, by types of factory service, setting out the

basis of allocation to the various products with which the department is concerned.

(4) A schedule of monthly and total distribution costs, by products, setting out for each product the cost of marketing the anticipated sales volume (selling, advertising, and delivery expenses).

(5) A schedule of monthly and total estimated administration and financial expenses in the form of a forecast of the costs necessary for the administration and financing of the enterprise.

(6) A detailed schedule of proposed additions and betterments to be made to plant and equipment, specifying dates and estimated costs.

(7) A schedule of monthly and total cash transactions. This schedule will include a forecast of the cash receipts and disbursements which will arise out of the scale of operations on which the budget as a whole is based, and which will provide for the necessary working capital, for the extensions and additions to long term assets, for the repayment of the company's long term financial obligations, and for the payment of the proposed dividends.

(8) Other information (from particular departments):
a) Data on the collection of accounts receivable.
b) The terms of payment of accounts payable and payrolls.
c) The company's proposed dividend policy.
d) A forecast of accrued and deferred charges.
e) Details of income taxes and other taxes.

(ii) Statements to be included in the completed budget

(1) An estimated balance sheet as of the end of each month in the forthcoming business year.

(2) An estimated statement of surplus for each month.

(3) An estimated statement of manufacturing, trading, and profit and loss for each month.

(4) A statement, by months, of estimated cash receipts and disbursements for the forthcoming year.

(iii) The purposes of a budget system

(1) It establishes a definite objective of performance for the enterprise.

(2) It assists in the formulation of executive policies affecting future operations.

(3) It promotes cooperation in the acceptance of policies and the execution of plans.

(4) It determines the limits within which expenditures must be kept.

(5) It determines what funds will be required, when they will be needed, and from what sources they may best be derived.

(6) It sets up a basis of comparison to show currently the degree and quality of actual operating performance relative to the budgeted estimates.

(7) It indicates when and where changes must be made in current operations if the planned objective is to be realized.

PROBLEM 5

Final Examination, October 1956

Auditing I, Question 3 (23 marks)

The comptroller of A Co. Ltd., incorporated under the Companies Act (Canada), has prepared the following draft of the condensed financial statements to be included in the company's annual report for 1956:

A CO. LTD.

BALANCE SHEET

as at July 31, 1956

	1956	1955
ASSETS		
Cash on hand and in bank	$ 80,220	$ 129,500
Accounts receivable	535,500	425,000
Provision for doubtful accounts	(20,000)	(20,000)
Inventories–lower of cost or market	550,000	385,000
Marketable securities	500,000	650,000
Land – cost	80,000	55,000
Buildings and machinery – cost	590,000	600,000
Accumulated depreciation on buildings and machinery	(155,000)	(120,000)
Furniture and fixtures – cost	208,000	205,000
Accumulated depreciation on furniture and fixtures	(40,000)	(35,000)
	$2,328,720	$2,274,500
LIABILITIES		
Accounts payable	$ 350,000	$ 320,000
Accrued liabilities	47,000	50,000
Income taxes payable	70,000	49,500
Bonds outstanding	450,000	300,000
Capital stock–common	800,000	800,000
–preferred	200,000	400,000
Earned surplus	209,720	355,000
Capital surplus	202,000	–
	$2,328,720	$2,274,500

STATEMENT OF PROFIT AND LOSS

for the year ended July 31, 1956

	1956	1955
Sales	$1,548,000	$1,290,000
Cost of goods sold	1,212,500	970,000
Gross profit	$ 335,500	$ 320,000

Selling expenses	$ 61,920	$ 51,600
Administration expenses	108,360	77,400
	$ 170,280	$ 129,000
Net operating profit	$ 165,220	$ 191,000
Investment income	20,500	25,000
	$ 185,720	$ 216,000
Taxes on income	82,000	96,000
Net profit carried to surplus	$ 103,720	$ 120,000

Statement of Earned Surplus
for the year ended July 31, 1956

Balance August 1, 1955		$ 350,000
Add:		
Profit for the year 1956	$103,720	
Profit on sale of securities	55,000	
Adjustment of prior years' taxes	3,000	161,720
		$ 511,720
Less:		
Dividends paid	$100,000	
Transfer to capital surplus on redemption of preferred shares	202,000	302,000
Balance July 31, 1956		$ 209,720

Required:

Set out the significant changes reflected in the above financial statements to which CA, the shareholder's auditor, would direct particular attention during the course of his annual audit of the accounts of A Co. Ltd. and, in each case, give the reasons why special attention would be necessary.

A SOLUTION

A CO. LTD.

Changes in Financial Position Requiring Attention During Annual Audit
for the year ended July 31, 1956

1. Accounts receivable and related provision

Accounts receivable have increased by 25% of the outstanding accounts as of the preceding year-end, though sales have increased by only 20% of the amount for the preceding year. Further, no change has been made in the provision for doubtful accounts. As of July 31, 1956, accounts receivable represent over four months' sales, and the question of their collectibility should be raised.

2. Inventories

Inventories have increased by 45% of the preceding year-end figure, although sales have only increased 20%.

The inventory as of July 31, 1956 represents approximately five and one-half months' supplies, compared with approximately four and one-half months for the preceding year. An inquiry should be made to determine whether the company has intentionally changed its policy about its inventory level.

Quantities, prices and calculations of inventories should be watched because of the decline in the gross profit ratio.

3. Marketable securities

The company has sold a substantial portion of its marketable securities. Authorization for the sale and the receipt of the proceeds should be checked.

The circumstances in which the exceptionally large profit on sale of securities was realized should be investigated.

4. Land

The company has acquired additional land during the year. Evidence of the purchase (i.e., the deed) should be examined.

5. Buildings and machinery and related depreciation

There has evidently been little change in this asset, although this point cannot be proved merely by looking at the balance sheet. The accumulated depreciation and the depreciation recorded in 1956 appear to be very low. The reasons for this should be determined. There is a net decrease of $10,000 in the asset balance, but no indication of a profit or loss on disposal.

An inquiry should be made about the company's position with respect to capital cost allowance for income tax purposes.

6. Furniture and fixtures and related depreciation

The comments above regarding buildings and machinery apply also to this asset. Depreciation is evidently being recorded at an unusually low rate, even lower than the minimum tax rate. Why?

7. Income taxes payable

Why is income tax payable at July 31, 1956 almost equal to income tax expense for the year?

8. Bonds payable

The company has issued further bonds during the year. The authorization for the issue and the receipt of the proceeds should be checked.

There is no reference in the financial statements to bond discount, premium or expense.

9. Capital stock – preferred

The company has redeemed one-half of its preferred stock during the

year. The details of the redemption should be reviewed to see that the legal requirements were satisfied.

The odd amount of the capital surplus balance created on the redemption of the preferred stock should be investigated. The par value, only, of the shares redeemed need be transferred from earned to capital surplus, and in this instance the extra $2,000 appears to be a premium on redemption.

10. Sales and Cost of Goods sold

Cost of goods sold has increased by 25% of the corresponding figure for the preceding year, and sales revenue has increased only 20%. This relationship is not necessarily out of line, but does invite some investigation, and should be brought to the attention of management.

Gross profit has decreased from 25% to 22% of sales revenue, even though sales have increased.

11. Administration expenses

Administration expenses for the year ending in 1956 were 40% greater than the corresponding figure for the preceding year. The propriety of payments charged to this expense should be scrutinized closely. The auditor is not so much concerned about the amounts of such payments as he is to see that they are properly authorized, that the payments are handled properly, and that the amount is correctly classified as administration expense.

12. Investment income

Investment income has decreased from $25,000 to $20,500. In view of the disposals of investments during the year, is investment income for the current year stated correctly?

13. Adjustment of Prior year's taxes

An explanation of this adjustment should be obtained, and the entire tax position of the company examined.

14. Dividends

Profit for the year (not including profit on sale of securities) was $103,720, and dividends paid were $100,000. What is the company's policy on the payment of dividends?

15. Earned surplus

The balance of earned surplus as of August 1, 1955 appearing on the statement of earned surplus does not reconcile with the balance appearing on the comparative balance sheet as of July 31, 1955. What is the explanation.?

BY PETER C. BRIANT, B.COM., C.A.

Current Reading

MAGAZINE ARTICLES

ACCOUNTING

"PRICING FOR PROFIT: A REVOLUTIONARY APPROACH TO RETAIL ACCOUNTING" by Malcolm P. McNair and Eleanor G. May. *Harvard Business Review,* May-June, 1957, pp. 105-122.

The conventional methods of retail accounting, with a system of percentages all related to net sales as 100%, are now inadequate, Professor McNair and Miss May tell us. The authors outline a series of "admittedly radical proposals" designed to restore to buyers their original status as merchants. The unity of the percentage system and thinking in terms of gross margin should now be given up, they say, in favour of focusing attention on dollar contribution and return on investment.

Required reading for department-store executives, this article outlines a system that is "management-oriented" rather than "accounting-oriented".

"ACCOUNTING MEASUREMENTS OF ECONOMIC CONCEPTS" by Norton M. Bedford. *The Journal of Accountancy,* May, 1957, pp. 56-62.

A widely accepted definition of income is the one proposed by the economist J. R. Hicks to the effect that a man's income for a week is "the maximum value which he can consume during a week and still expect to be as well off at the end of the week as he was at the beginning". This concept, originally applied to a person's income, has come to be adopted by some writers as a concept of business income. But to accountants it has posed the difficult problem of what is meant by "as well off". Does it refer, for example, to the maintenance of financial capital, physical capital, or capital in terms of dollars of constant purchasing power?

Economists argue that income should be determined by comparing the present value of the stream of earnings of an enterprise at the beginning and end of a fiscal period, with the going-concern value of the enterprise included in the calculations. In the interests of objectivity, etc., accountants have preferred to match revenues and historical costs.

In "Accounting Measurements of Economic Concepts", Mr. Bedford analyzes some of the areas of disagreement between the two professions, and suggests that the differences may not be as significant as they are sometimes assumed to be.

"ARE THERE ANY ACCOUNTING PRINCIPLES?", by Sir A. A. Fitzgerald. *The Accountants' Journal,* January-April, 1957, pp. 198-327 (in four instalments).

Sir Alexander Fitzgerald, the eminent Australian accounting professor, calls on the profession to start developing a theory that distinguishes between foundations and superstructure. In the past, he says, "great

damage was done and great hindrance [in the development of accounting theory] resulted from an initial confusion between *principles* on the one hand and *detailed procedures* or techniques on the other." The use of the word "principles", in the sense of governing rules of conduct, he finds to be clearly inappropriate when applied to the pronouncements of the professional accounting institutes and associations. "What are described as principles," writes Sir Alexander, "are often found, on closer examination, to be a mixture of basic assumptions or postulates, conventional practices, doctrines or beliefs that certain practices should be followed, standards of good practice, and recommended procedures. To describe all of these as principles is to confuse foundations and superstructure."

Notwithstanding the tremendous advances in accounting theory in the last 25 years, Sir Alexander would have the search for basic assumptions and concepts intensified; for, until these are clearly stated, he writes, it will not be possible to develop systematic and coherent standards of practice. Merely describing what is acceptable current practice is not alone sufficient. "Let it be frankly recognized," says Sir Alexander, "that the structure of accounting theory has not yet been erected. We are still at the stage when we are not sufficiently certain about the solidity of the foundations. The work of research committees of the professional accounting bodies is not yet finished. It has hardly begun, and we will not be ready to lay down principles of accounting or even inflexible standards of practice until we have much more thoroughly explored the ground upon which the superstructure is to be raised. Perhaps we shall find that accounting, as a service to the business and to the community, must avoid inflexibility at all cost and must adapt itself continually to changing conditions and expanding demand. This, of course, is not to say that research in accounting is doomed to be fruitless; it is to say that it will never be finished unless progress in accounting is to come to an end; and that accounting research must always go much deeper than mere exposition of current practice . . . ."

"INCOME TAXES IN FINANCIAL STATEMENTS" by Maurice Moonitz. *The Accounting Review*, April, 1957, pp. 175-183.

One of the contentious features of Bulletin No. 10, entitled "Depreciation, Capital Cost Allowances and Income Taxes", is the suggestion that a deferred credit should be reported when the tax charged against income for a year exceeds the actual income tax liability for that year (the difference resulting from a company's claiming for tax purposes an amount greater than the depreciation recorded in the accounts).

In "Income Taxes in Financial Statements", Professor Moonitz considers the problem, and concludes that the excess accrual should be shown as a current liability labelled "income tax payable in the future". This amount, he suggests, should subsequently be transferred to "income tax payable", when the depreciation change in the books later exceeds the amount allowed for tax purposes.

In the opposite case, where net income, before tax, per the books is less than taxable income, Moonitz would record in the income account

an income tax charge at current rates on net income per the books. A credit for the additional actual tax liability would be matched by a debit to "prepaid tax on deferred credit" (where a deferred credit has been included in revenues for tax purposes) or to "prepaid tax on expense" (where a current revenue deduction has been deferred for tax purposes). At a subsequent date, when taxable income is less than net income recorded in the books, an appropriate part of the balance in the "prepaid tax" account would be used to reduce the credit to "income tax payable".

"Let the tax follow the income" sums up the principle followed and illustrated in this article.

"MACROACCOUNTING AND SOME OF ITS BASIC PROBLEMS" by A. C. Yu. *The Accounting Review*, April, 1957, pp. 264-272.

Professor Yu puts his finger on one of the outstanding weaknesses in accounting education today. Accounting students in almost all universities are plunged directly into the problems related to financial accounting, with no attempt made to indicate to them how accounting pervades the whole of man's economic activity.

Borrowing terms from economics, "microaccounting" may be used to refer to the accounting for individual enterprises and institutions; "macroaccounting", to the accounting for a community, a region, an economy, or the world as a whole. To expose our students to "microaccounting" only amounts to placing an unreasonable restriction on the scope of our subject. The accounting that deals with the aggregation of individual economic units is left to the departments of economics, in which it is usually taught very badly by instructors lacking a familiarity with even the simple rules of debit and credit. The proper job of instructors in economics is not to teach macroaccounting, says Professor Yu, but to show their students how to utilize and analyze the data so derived.

Professors of accounting should keep a note of Professor Yu's closing comment on their desks:

> "To train accounting students only in the field of microaccounting with the object of making professional accountants out of them is to lose sight of the true meaning of college education."

EDUCATION

"THE TRAINING AND EDUCATION OF ENTRANTS TO THE ACCOUNTANCY PROFESSION IN OTHER COUNTRIES", by Robert Browning and W. L. Barrows. *The South African Accountant*, March, 1957, pp. 14-24.

These are the first of a series of articles outlining the methods used in English speaking countries to train and educate entrants to the accounting profession. Mr. Browning reports on the present position in Scotland, and touches on some changes proposed by a Special Committee of the Council set up in 1953 to consider the subject. Mr. Barrows deals with accounting training in England and Wales. The syllabi of both Institutes are presented in full.

Scottish students, reports Mr. Browning, receive their formal education through evening classes conducted by the Institute and given by partners of firms in public practice. He believes that this system has proved to be superior to correspondence courses. In England and Wales, on

the other hand, the Institute does not consider that the body setting the examinations should also provide tuition. Taking no formal part in the theoretical training, it relies on a small number of tutorial schools to prepare its students for the examinations.

In Canada, with some exceptions, we have combined what would seem to be, from the British viewpoint, the least satisfactory feature of each approach. Our Provincial Institutes directly concern themselves with a student's theoretical training and require him to take specified correspondence courses.

There is something to be said for the English method. Competition among the various correspondence schools tends to compel them to maintain a high quality in their courses and to keep them up to date. Nevertheless, it is doubtful, in this reviewer's opinion, whether any correspondence course, however good, can fully compensate for the loss of personal contact established between instructor and student through regular attendance at classes.

Notable in the curricula of both British Institutes is the emphasis placed on law. Under its revised program, the Scottish Institute examines solely in law and economics in the third year of the course. Its Special Committee recently recommended that apprentices be granted a leave of absence for "one academic year" during the third year of the five year apprenticeship to attend university classes in accounting, economics and law, passes in law and economics exempting the student from further examination in these subjects. The Institute in England and Wales has reviewed its method of training in the last few years, but Mr. Barrows does not foresee any material changes being made in a pattern that has remained virtually unchanged for 70 years.

Both bodies hold their examinations twice a year. Students in Scotland generally receive one week's full time leave of absence to prepare for the intermediate examinations and up to three weeks for the finals. In England and Wales, the principal is required under the articles to allow the articled clerk to have at least one month of study leave prior to each examination.

One novel feature in England and Wales merits some consideration in Canada. Each successful candidate in the intermediate examination is informed of the place he took, as it is believed that this information may be of value to him in preparing for the finals. Simple to implement, and possibly useful to the student, we ought to try this out, for ours are, after all, competitive examinations.

PROFESSIONAL

"PENSION POLICIES FOR THE SELF-EMPLOYED" by R. W. Abbott. *The Accountant*, April 6, 1957, pp. 383-384.

This article contains some words of advice for practitioners who, for the first time, may be providing for their old age through an insurance company policy now that it is possible to provide for retirement on a tax-free basis.

A comparative study of the various life office terms should always be made, writes the author, who is an actuary, for it would be difficult to find any two offices whose rates and policy conditions were identical. The differences, he warns, may redound

to the advantage or disadvantage of the policy-holder.

The best scheme, in Mr. Abbott's view, is where the governing body establishes a trust for its members and re-assures the benefits provided by the trust with a selected panel of insurance companies.

Flexibility, pension age, widows' pension benefit, and investment trust contracts are four features he thinks merit careful study in each life contract considered by those unable to take advantage of the facilities of a trust.

BOOK REVIEW

"Standards of Education and Experience for Certified Public Accountants"; published for the Commission on Standards of Education and Experience for Certified Public Accountants by The Bureau of Business Research, University of Michigan, Ann Arbor, 1956; pp. (XXIII) and 151; $2.50.

The Commission on Standards of Education and Experience for Certified Public Accountants was formally created by the American Institute of Certified Public Accountants in April 1952 for the essential purpose of formulating standards of education and experience which could be considered desirable prerequisites for state certification as a C.P.A. "The Commission is primarily concerned with the preparation of individuals for public practice as C.P.A.'s and with the process by which the individual is designated as a C.P.A."

The first two chapters of this book give an excellent background to the subject by reviewing the professional practice of C.P.A.'s in all its aspects as a profession and by describing the legal regulation of public accountancy in the United States. The next three chapters deal with the educational facilities for C.P.A.'s, the experience requirements and the structure of the present C.P.A. examination. The final chapter summarizes the Commission's findings and recommendations.

It is interesting to find that laws governing the profession in New York State date back to 1896 and that, as early as 1917, the American Institute developed a uniform examination which is now used universally in the U.S. They are now striving for uniformity in education and experience requirements in order to achieve interstate reciprocity for the profession.

It is very apparent from reading the chapter on educational facilities that more and more emphasis is being placed on a college education as a prerequisite to obtaining the C.P.A. certificate.

The Commission's basic recommendations for the preparation of individuals for entry into the profession include the following:

1. College graduation is essential.
2. A qualifying examination to test the college graduate's aptitude is desirable.
3. The establishment of professional academic programs in schools of business administration.
4. The inclusion of an "internship" program as part of the educational requirement.

It is interesting to note that the book includes statements of dissent by four prominent members of the Commission, thus pointing up the fact that there is not complete unanimity of thought on this subject.

R. C. Berry, C.A.,
Toronto, Ontario

NEWS OF OUR MEMBERS

Alberta

Williams, Roberts & Co., Chartered, Accountants, announce the retirement from partnership of J. D. Williams, C.A. The practice will be carried on by Lorne R. Roberts, C.A., Harold G. Gibson, C.A. and Hugh L. Fraser, C.A. under the name of Roberts, Gibson & Fraser, Chartered Accountants, with offices at 513 Lougheed Bldg., Calgary.

Francis Gordon-Cooper, C.A. and Hugh L. Fraser, C.A., announce the dissolution of the firm of F. Gordon-Cooper & Co., Chartered Accountants. This practice has been merged with that formerly carried on under the name of Williams, Roberts & Co., and will be continued under the firm name of Roberts, Gibson & Fraser, Chartered Accountants, with offices at 513 Lougheed Bldg., Calgary. Francis Gordon-Cooper, C.A. will be associated with the new firm in a consulting capacity.

Alexander Kennedy Miller & Co., Chartered Accountants, announce the removal of their offices to 204 Financial Bldg., 10621 — 100th Ave., Edmonton.

Gordon F. McClary, C.A. announces the removal of his offices to 10019 — 103 St., Edmonton.

British Columbia

Campbell, Shankland & Yolland, Chartered Accountants, announce the purchase of the accounting and auditing practice of Donald A. Wilson, Certified General Accountant. The practice will be conducted at 1442 Bay Ave., Trail.

O. R. McConnell, C.A. announces the opening of an office for the practice of his profession at Box 819, Hope.

George B. Holt, C.A. announces the admission to partnership of Ronald G. Campion, C.A. Henceforth the practice of their profession will be conducted under the firm name of Holt, Campion & Co., Chartered Accountants, with offices at 1012 Douglas St., Victoria.

David W. Ellis, C.A. announces the opening of an office for the practice of his profession at 745 West Broadway, Vancouver.

Manitoba

David A. Holman, C.A. has been appointed assistant executive director of the Community Chest of Greater Winnipeg.

David Young, C.A. has been appointed to the board of directors of the Dryden Paper Co. Ltd., Winnipeg.

T. B. Hendry, C.A. was the winner of the annual short story contest held under the auspices of the Winnipeg branch, Canadian Author's Association.

Ontario

W. W. Richardson, C.A. has been appointed a director of Adhesive Tapes Canada Ltd. and Sellotape Canada Ltd., and continues as comptroller of E. S. & A. Robinson (Canada) Ltd., Toronto.

Barry G. Jones, C.A. has been appointed comptroller of the United Community Fund of Greater Toronto.

R. D. Armstrong, F.C.A. has been appointed vice-president, accounting and finance, of Canadian National Railways, Montreal.

Brian H. Shelley, C.A. has been appointed secretary-treasurer of The Southam Co., Ltd., Toronto.

Ivan S. Gray & Co., Chartered Accountants, announce that henceforth their practice will be conducted under the firm name of Gray, Butcher, Frost & Smith, Chartered Accountants, with offices at 185 Bay St., Toronto.

R. W. Meanwell, C.A., R. A. Goodwin, C.A. and W. M. Stoneman, C.A. announce the formation of a partnership for the practice of their profession under the firm name of R. W. Meanwell & Co., Chartered Accountants, with offices at Canada Trust Bldg., Windsor.

Matthews Brothers, Partridge & Co., Chartered Accountants, announce the removal of their office to Imperial Oil Bldg., 111 St. Clair Ave. W., Toronto.

Kemp & Birnie, Chartered Accountants, announce that henceforth their practice will be conducted under the firm name of Kemp, Birnie, Britchford & Co., Chartered Accountants, Nassau, Bahamas.

R. Campbell, C.A. has been appointed vice-president — finance of Falconbridge Nickel Mines Ltd., Toronto, and continues as secretary.

Professor W. G. Leonard, F.C.A. addressed the annual meeting of Queen's University Alumni, Kingston, on May 15.

Quebec

Doubilet, Pinkus & Co., Chartered Accountants, announce the removal of their office to Rm. 415, 5757 Decelles Ave., Montreal.

James A. deLalanne, C.A. has been appointed president of Pirelli Cables, Conduits Ltd., St. John's, Que.

Matthews, Hoffman & Co., Chartered Accountants, Montreal, announce the admission to partnership of Douglas L. Layton, C.A.

P. S. Ross & Sons, Chartered Accountants, Montreal, announce the admission to partnership of E. J. Newman, C.A., R. M. Rennie, C.A., and J. B. Wight, C.A.

J. Gordon Mock, C.A., has been elected a director and appointed secretary of Jenkins Bros. Ltd., Montreal.

Edmond Caron, C.A. has been appointed a member of the Montreal-Laurentian Autoroute Board, Montreal.

Maurice De Palma, C.A. annonce que son bureau est situé maintenant au numéro 7227 blvd. Pie IX à Montreal.

Rosaire Courtois, C.A. has been elected a director of Canadian Home Assurance Co., Montreal.

OBITUARIES

H. S. T. PIPER

The Institute of Chartered Accountants of Quebec announces with deep regret the death of H. S. T. Piper.

Mr. Piper was born in Plymouth, England, in 1890 and came to Canada in 1911. In 1917 he became a member of the Institute of Chartered Accountants of Quebec and at that time was employed by MacIntosh, Cole and Robertson. In 1920 he joined J. O. Bourcier Ltd., and remained there until 1929. From then until 1931 he was with Baker, Birnie & Co. He then entered the firm of Mark Fisher & Co. Ltd., and at the time of his death was the president of that company and of The Peoples Mutual Building Society.

Mr. Piper was particularly active in church and masonic service. He had been chairman of Macaulay Camp for underprivileged children and mothers, treasurer of the Montreal-Ottawa Conference of the United Church of Canada, and, at the time of his death, was a member of the Executive Board of publication of the United Church.

To his wife and family, the members of the Institute and Council extend their sincere sympathy.

INSTITUTE NOTES

ONTARIO INSTITUTE

Personnel Selection — London: The personnel selection tests in London are now being given in the offices of Clarkson, Gordon & Co., 291 Dundas Street, instead of in the offices of Wm. C. Benson & Company who have supplied the accommodation and supervisors for the test for the past five years.

QUEBEC INSTITUTE

Annual Meeting: George P. Keeping of Montreal was elected president at the annual meeting held on June 12. Howard I. Ross became first vice-president; J. Emile Maheu, second vice-president; M. Laird Watt, secretary; and Leo E. Boisonnault, treasurer. Immediate past president is Lucien D. Viau. Elected to the Council for one year were: René Gagnon, John P. Kinghorn, J. S. McKeown, Donald F. Rennie, R. G. Scroggie and J. J. St. Pierre; for two years: F. W. V. Anderson, Maurice de Coster, André G. Leroux, J. W. Roland Levesque, B. G. Levine and John F. Lewis. C. D. Mellor is executive secretary.

Annual Dinner: The annual dinner of the Institute was held in the ballroom of the Sheraton-Mount-Royal Hotel on June 12. The guest speaker was Dr. Henry F. Hall, principal of Sir. George Williams College. His subject was "The Relationship of Higher Education to Business".

During the dinner an engraved silver tray was presented to Mr. S. R. Campbell, a past president of the Institute and a former partner in the firm of P. S. Ross & Sons, on the occasion of his having achieved 50 years as a chartered accountant.

Provincial Conference: The first annual provincial conference of the Quebec Institute was held at the University of Montreal in Montreal on June 12. A report of the conference will appear next month.

EDMONTON C.A. CLUB

The Edmonton C.A. Club held a panel discussion on June 5 to discuss the practical application of recently issued Research Bulletin No. 13. The panel was composed of D. D. Bentley, G. C. Berge, K. C. Cardiff and B. F. L. Symes. The chairman was E. A. Christenson.

KOOTENAY C.A. ASSOCIATION

Chartered accountants from Creston, Nelson, Kelowna, Grand Forks and Trail took part in the annual meeting of the Kootenay Chartered Accountants Association on May 11. Main item on the agenda was the study of the accounting system used at Consolidated Mining and Smelting Company. Lunch was served at the Rossland-Trail Golf Club and a tour was made of Cominco operations. A banquet was held in the evening.

President of the association is Walter Kitto of Nelson. A. C. Ferguson of Cranbrook is vice-president and Jack Yolland of Trail is secretary.

WINDSOR STUDENTS ELECTED

Offices of the Windsor and District Branch, Chartered Accountants Students Association of Ontario were elected at a meeting held at the Lakewood Golf Club. They are: D. Kovack, president; K. Beneteau, vice-president; T. Davison, secretary; and B. Pye, treasurer. Committee chairmen are: R. Marshal, social; W. Spencer, sports; R. Sorenson, promotion. R. Emery has been elected to the provincial council of the association.

At the annual golf day at Roseland Golf Club on May 28, low gross for students was won by Jim Clark and low nets by Bill Corbett, Roger Emery, Albert Maes and Terry Davis. Kenneth Reid took low gross for C.A.'s and Jack McWade, low net. Douglas McMurrin received the Morris Construction Award for most honest golfer: one rabbit.

CLASSIFIED ADVERTISEMENTS

Rates: ***Positions wanted, $7.00 per column inch; Positions offered, $10.00 per column inch; Open rate, $17.00 per column inch.***

Closing date is 14th of preceding month

CHARTERED ACCOUNTANT required as controller of Winnipeg manufacturing company having over 500 employees. This is a new position in an expanding company with plenty of scope for advancement. Salary dependent upon ability and experience. Reply giving full personal details to William Gray & Co., Chartered Accountants, Bank of Canada Building, Winnipeg 2.

INTERNAL AUDITOR: Experienced internal auditor required immediately by newsprint manufacturer with plants in Ontario and Quebec. Applicants must have a minimum of six years' experience in accounting and auditing to direct work of five auditors, and be prepared to travel almost continuously. Applicants with accounting degree and bilingual preferred but not essential. Salary commensurate with experience. State age, qualifications and references when applying to Box 675.

CHARTERED ACCOUNTANT required by rapidly expanding firm of chartered accountants in industrial centre of southwestern Ontario. Immediate possibilities for partnership. Reply in strict confidence. Box 674.

FIRM OF CHARTERED ACCOUNTANTS requires bilingual chartered accountant to take charge of branch office. Excellent opportunity for future partnership. Reply stating age, education, experience, etc., to Box 673.

CHARTERED ACCOUNTANT (1951), age 34, excellent experience in diversified audit engagements; employed since 1952 by international firm of C.P.A.'s in Detroit, U.S.A.; seeks position in commerce or industry in Toronto. Box 672.

B.C. FIRM of chartered accountants require recent graduate to take over operation of a C.A. practice in interior B.C. city on a resident partner basis. Basic salary, profit sharing and ownership equity, no initial investment required. Excellent opportunity for growth factor. Reply in confidence giving age, education, experience to Box 677.

SOLE PRACTITIONER 5 YEARS: I seek a young graduate with a small practice for purpose of combining practices under partnership arrangement. Box 676

ACCOUNTING PRACTICE WANTED: Toronto chartered accountant would like to purchase practice either outright, in partnership or by succession arrangement. In reply please state volume, price etc. Box 678.

POSITION WANTED: Young C.A. with 7 years commercial experience wishes to improve his position. Further details of experience will be supplied on request. Box 679.

COMPTROLLER: Required by large provincial Co-operative organization doing a wholesaling, marketing and processing volume of over $60,000,000 annually. Toronto location. Duties involve control of accounting, credit, payroll, systems, office facilities, budgeting, analyzing and reporting.

Applicants must have had several years of related administrative experience and be able to work harmoniously on a senior executive team. Some agricultural and cooperative background or understanding desirable.

Company provides many employee benefits including pension and sharing of earnings. Salary commensurate with duties. Please reply in complete confidence stating full details to Personnel Manager, United Cooperatives of Ontario, 35 Oak Street, Weston.

BARRISTERS AND SOLICITORS

MACLEOD, McDERMID, DIXON, BURNS, McCOLOUGH, LOVE & LEITCH

Barristers and Solicitors

6th Floor, Hollinsworth Building - - - Calgary, Alta.

PITBLADO, HOSKIN, BENNEST, DRUMMOND-HAY, PITBLADO, McEWEN, ALSAKER, HUNTER & SWEATMAN

Barristers and Solicitors

Hamilton Building, 395 Main Street - Winnipeg 2, Man.

STEWART, SMITH, MACKEEN, COVERT, ROGERS, SPERRY & COWAN

Barristers and Solicitors

Roy Building - - - - - - Halifax, N.S.

ROSS & ROBINSON

Barristers and Solicitors

Canadian Bank of Commerce Chambers - - Hamilton, Ont.

BORDEN, ELLIOT, KELLEY, PALMER & SANKEY

Barristers and Solicitors

25 King Street West - - - - - Toronto 1, Ont.

ALAN DIGNAN, Q.C.

Barrister and Solicitor

Bloor Street & St. Clarens Avenue - - Toronto 4, Ont.

McCARTHY & McCARTHY

Barristers and Solicitors

Canada Life Building, 330 University Avenue - Toronto 1, Ont.

McLAUGHLIN, MACAULAY, MAY & SOWARD

Barristers and Solicitors

302 Bay Street - - - - - - Toronto 1, Ont.

WRIGHT & McTAGGART

Barristers and Solicitors

67 Yonge Street - - - - - - Toronto 1, Ont.

BEAULIEU, BEAULIEU & CASGRAIN

Barristers and Solicitors

Kent Building, 10 St. James Street West - Montreal 1, Que.

COMMON, HOWARD, CATE, OGILVY, BISHOP & COPE

Barristers and Solicitors

Royal Bank Building - - - - Montreal 1, Que.

DIXON, SENECAL, TURNBULL, MITCHELL, STAIRS, CULVER & KIERANS

Barristers and Solicitors

Bank of Canada Building - - - Montreal 1, Que.

PHILLIPS, BLOOMFIELD, VINEBERG & GOODMAN

Barristers and Solicitors

464 St. John Street - - - - - Montreal 1, Que.
